TransForm

TransAlta

CORPORATE PROFILE : TransAlta is Canada's largest non-regulated international electric energy company. With a solid 90-year history of excellence, we have more than $7 billion in assets and own or operate more than 8,000 megawatts of electrical generation capacity (operating or under construction). Our business strategy is twofold: achieve strong earnings growth for our shareholders and enhance our competitive edge as a low-cost operator of generation and transmission assets, and as a successful developer of independent gas-fired power projects. We are focusing our growth in Canada, the United States, Australia and Mexico.

FINANCIAL HIGHLIGHTS :

(IN MILLIONS EXCEPT COMMON SHARE DATA)

	00	99
Earnings from continuing operations*	**$177.9**	$97.0
Net earnings*	**$279.8**	$170.1
Revenues	**$1,587.0**	$1,029.4
Cash flow to investing activities	**$(205.0)**	$(988.8)
Return on common shareholders' equity	**11.74%**	9.22%
Per common share data		
: Earnings from continuing operations	**$1.05**	$0.57
: Net earnings	**$1.66**	$1.00
: Dividends	**$1.00**	$1.00

** applicable to common shareholders*

2000 SHARE PRICE PERFORMANCE :

(BASED ON THE TSE CLOSING PRICE)

CONTENTS :

This Annual Report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Corporation. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, global capital markets activity, changes in prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where TransAlta Corporation operates.

All dollar amounts are expressed in Canadian currency unless otherwise indicated.

TransAlta

The electricity business is transforming. And so is TransAlta. We have changed from a regulated utility to an unregulated energy generator. Our power portfolio is guided by accomplished, energetic employees and clear business objectives: deliver a long-term return on equity of 15 per cent; grow earnings per share by more than 10 per cent annually; and increase megawatts from our current 8,000 to 10,000 by 2002 and to 15,000 by 2005. See it. Plan it. Do it.

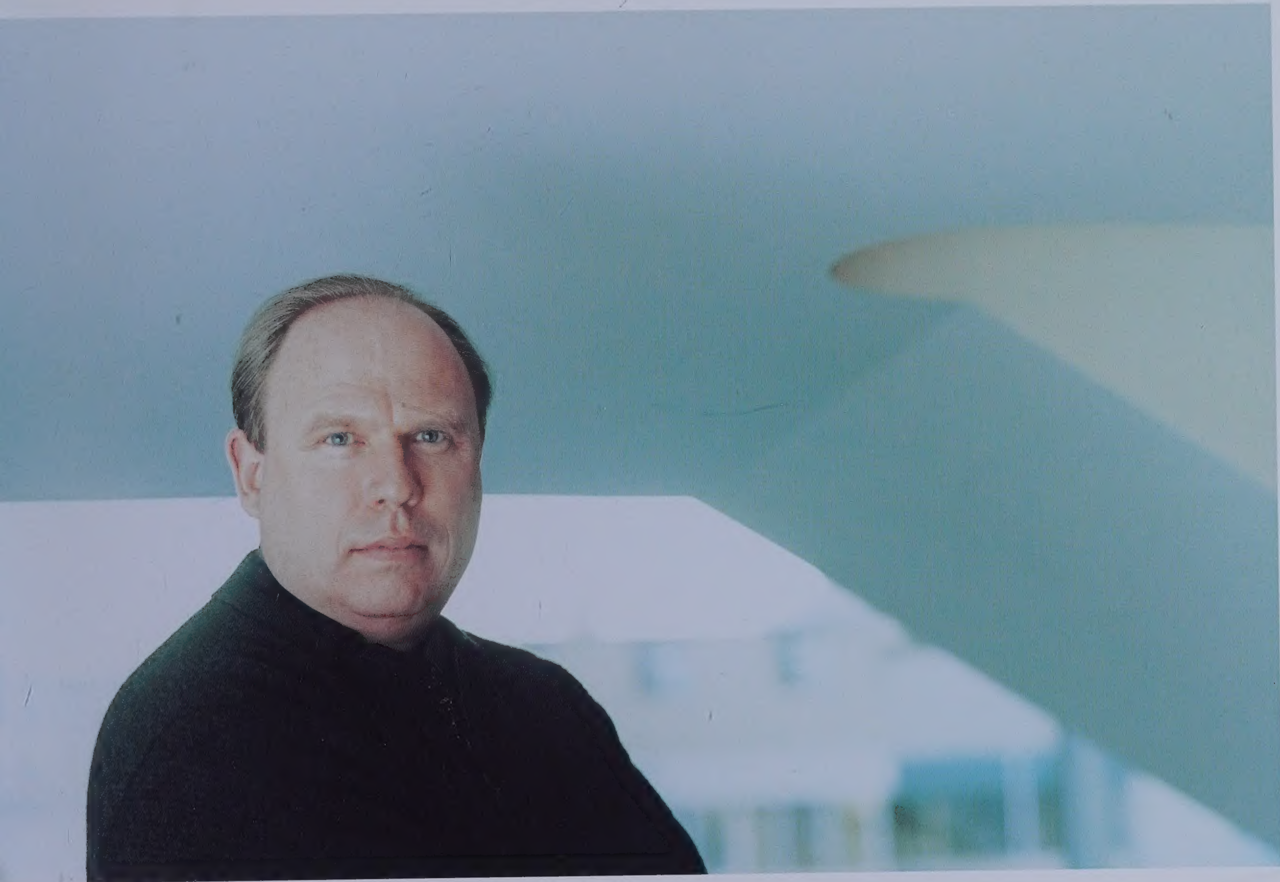
We're TransAlta.
And this is what we do.

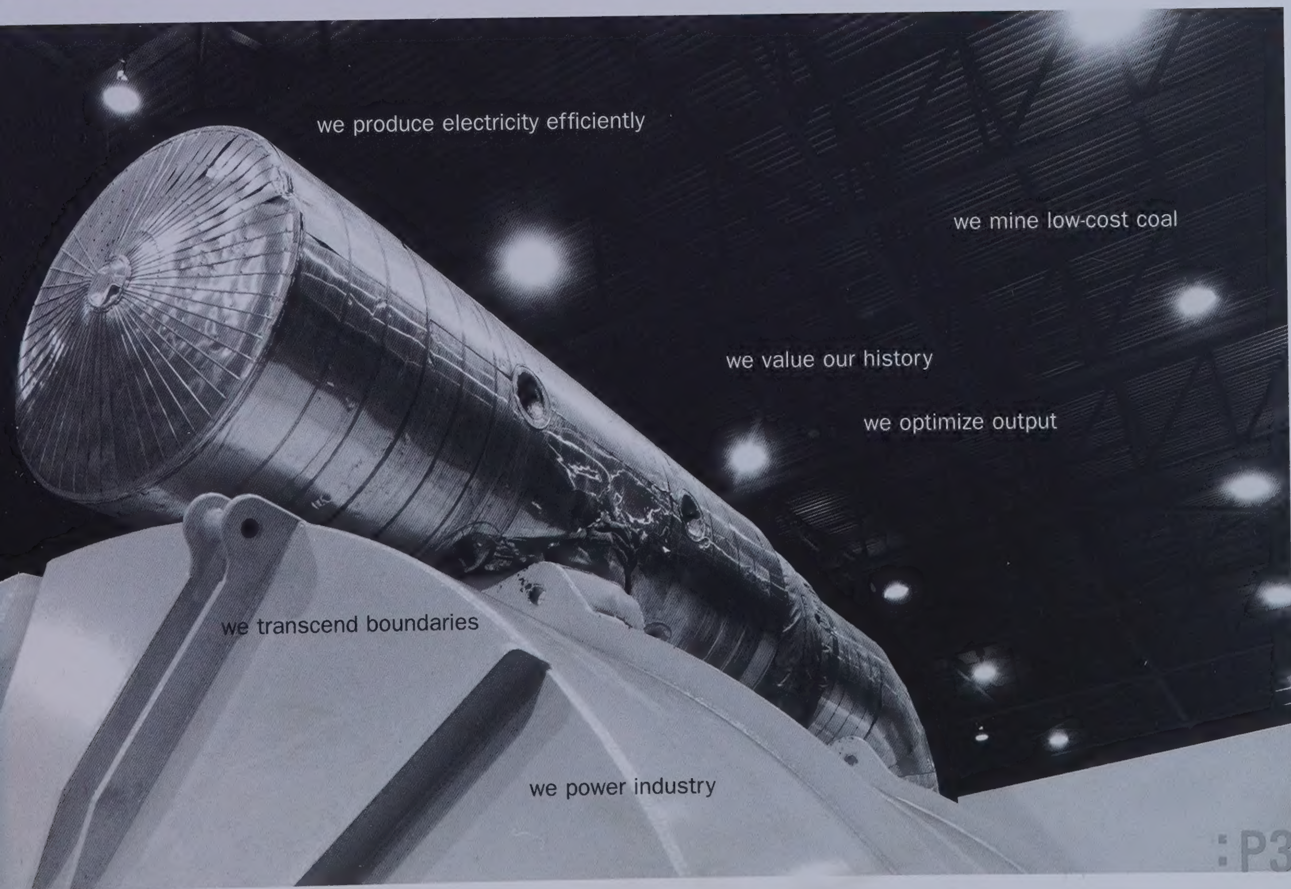
"OUR COAL AND HYDRO POWER GENERATION BUSINESS IS TAKING ON A MORE COMPETITIVE, DYNAMIC STYLE."

Murray Nelson EVP Generation

This is what we do in Generation.

TransAlta is transforming Generation by acquiring new generating assets, expanding and optimizing output at existing facilities and creating new products and services that enhance our competitive, low-cost coal advantage. In 2000, we successfully completed the acquisition of the Centralia power plant and coal mine in Washington state – adding 1,340 MW of unregulated generation capacity. In 2001, we start expanding our Keephills, Alberta coal-fired plant – adding 900 MW of power generation capability. And year-round, we maximize the output from our portfolio of coal and hydro facilities by focusing on operational excellence. We're also developing ancillary services, like our ability to manage voltage and control frequency, as new sources of revenue that add value in a deregulated marketplace.




we produce electricity efficiently
we mine low-cost coal
we value our history
we optimize output
we transcend boundaries
we power industry

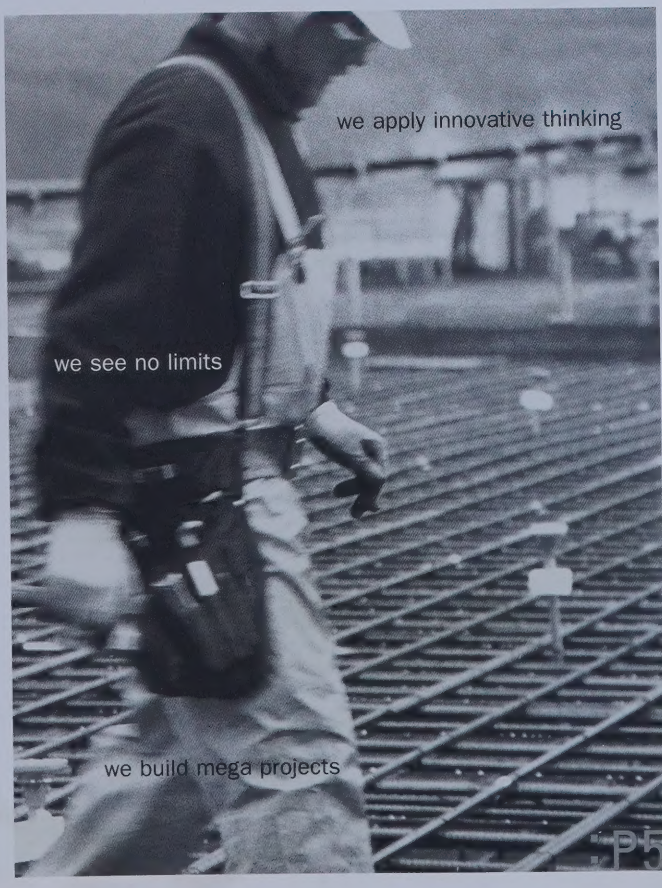
"WE'RE TECHNOLOGY LEADERS IN GAS-FIRED POWER GENERATION. THIS CAPABILITY ENABLES US TO GO WHERE THE GROWTH IS."

Duane Lyons VP IPP Marketing

This is what we do in IPP.

TransAlta's IPP business is currently building or planning almost $1 billion worth of new gas-fired generating capability: a 650 MW cogeneration facility at Sarnia, Ontario; a 250 MW gas-fired plant at Campeche, Mexico; and a 248 MW gas-fired plant at our recently acquired Centralia, Washington coal-fired generating operation. In 2001, we purchased a 55 MW gas-fired generation facility at Binghamton, New York and brought a 360 MW cogeneration facility at Suncor's Fort McMurray, Alberta plant on line. Our growth is concentrated in four markets: Canada, the U.S., Mexico and Australia – countries characterized by low-risk and high electricity demand.


we translate technology
we make power from gas
we cogenerate

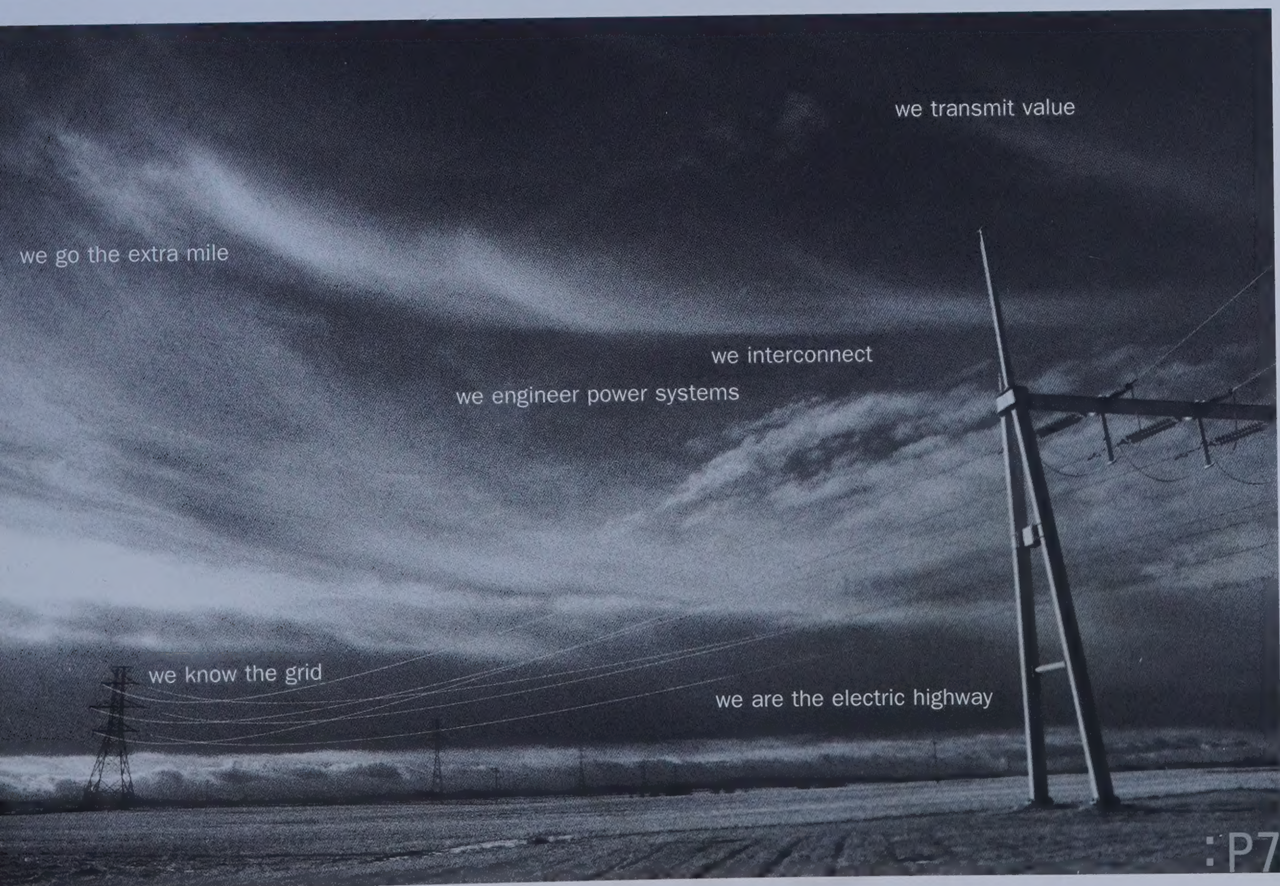

we apply innovative thinking
we see no limits
we build mega projects

"TRANSMISSION IS THE ROAD TO MARKET. WE SIMPLIFY COMPLEX POWER SYSTEM CHALLENGES FOR CUSTOMERS ACROSS NORTH AMERICA."

Scott Thon VP Transmission

This is what we do in Transmission.

TransAlta's experienced Transmission team consistently delivers first-quartile performance in cost, reliability and efficiency, while operating a system that includes 11,600 kilometres of high-voltage transmission lines and 260 substations in Alberta. The core strengths we have built – understanding the electricity transmission grid and its bottlenecks, engineering and connecting new power systems and then operating it all – are becoming even more valuable in deregulating markets. That's why we are leveraging our capabilities and enlarging our transmission services business to a North American-wide focus.

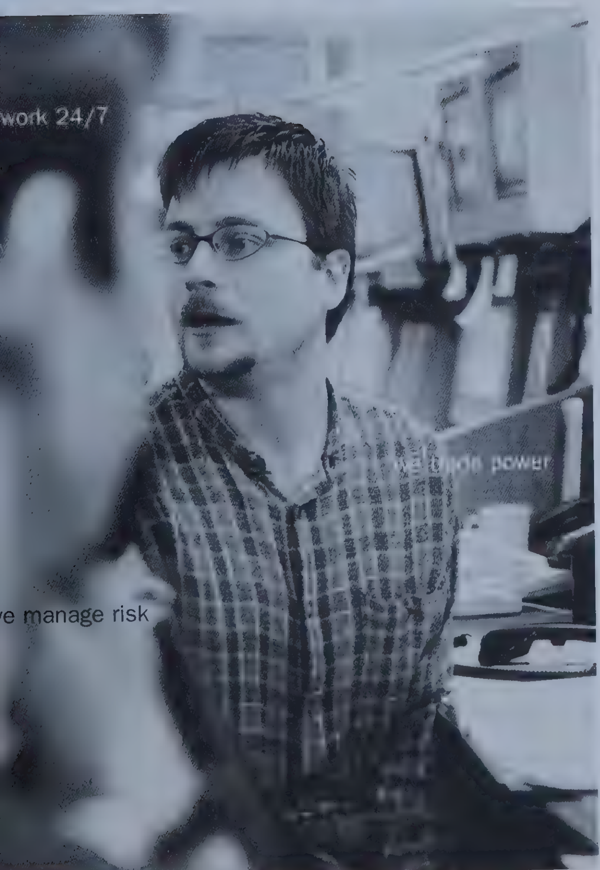

we transmit value
we go the extra mile
we interconnect
we engineer power systems
we know the grid
we are the electric highway

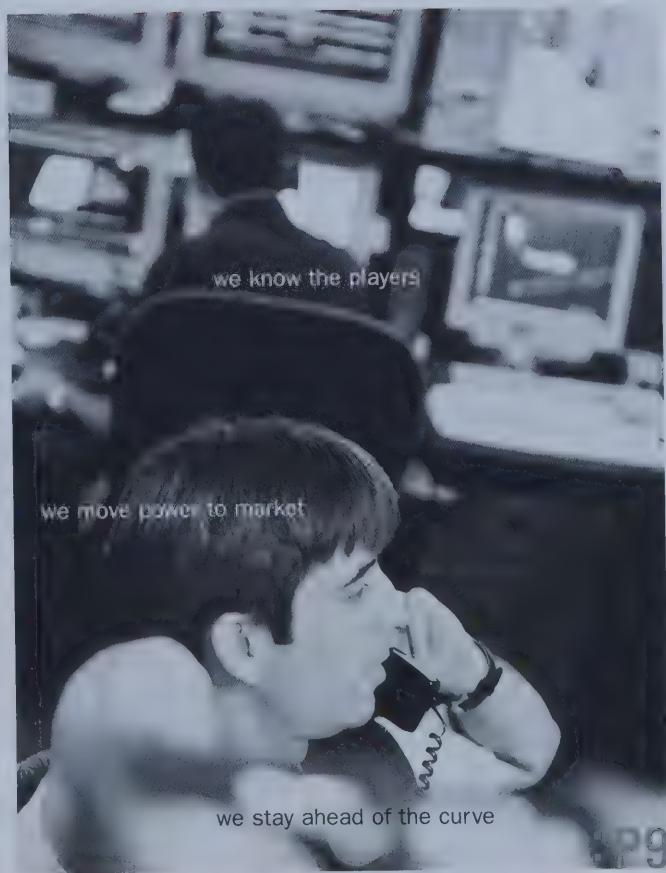
"MARKET KNOWLEDGE IS A FORM OF CURRENCY – AND WE'RE USING IT TO FUEL OUR PROGRESS AS A COMPANY."

Ian Bourne EVP & CFO

This is what we do in Energy Marketing.

High energy prices. Extreme price volatility. Rising demand for electricity. All of these factors enabled Energy Marketing to maximize plant output value and trading revenue, contributing more than $53 million to the company in 2000. While our primary focus is adding value to each megawatt produced by our generation facilities, another important priority is building market knowledge that enables us to trade in the market intelligently, and understand it thoroughly to make the best capital investment decisions. In 2000, we acquired a 50 per cent interest in MEGA (Merchant Energy Group of the Americas), a move that will help us build our U.S. presence and identify additional U.S. opportunities.


work 24/7
we trade power
ve manage risk


we know the players
we move power to market
we stay ahead of the curve

Deregulation is reshaping the electricity business. And TransAlta is prepared to capitalize on the promise of opportunity. We've transformed our attitude, our business structures and our processes to align with the reality of competitive, deregulating markets.

At TransAlta, this is what we do best.

This past year, as new regulatory rules were about to be implemented in Alberta, we took a long hard look at ourselves and successfully completed a structural transformation of our company. We've changed from a regulated, vertically integrated, Alberta-centric utility into one of Canada's largest, non-regulated electricity generators. As a result, we are now focused on four businesses: coal and hydro generation, gas generation (or what we call independent power projects), high-voltage transmission and energy marketing. We believe the greatest potential for maximizing TransAlta's value and sustaining profitable growth lies in these arenas. This is a unique time in our industry – the North American supply of electricity is tight, much of the capacity is aging, demand continues to exceed forecasts and new technologies are emerging. Throughout 2000, we made a series of bold moves to capitalize on these opportunities, while building on our solid, value-based foundation.

BOLD STRATEGIC MOVES IN A NEW DIRECTION

Our new focus led to our decision to take capital out of businesses that were retail based or that couldn't meet our new and higher-return objectives. As a result, we decided in late 1999 to divest our Alberta Distribution & Retail operation. We were pleased that the 642 TransAlta distribution business employees found homes with UtiliCorp, a Kansas City-based company.

We also sold our New Zealand operations early in 2000. Starting from an initial $43.2 million investment in 1994 in a small distribution company, TransAlta sold this diversified energy company for $605 million in 2000, doubling our overall investment. We learned a lot about what it takes to succeed in deregulated markets, as New Zealand was the earliest and most active proponent of electric deregulation in the world.

Both these businesses had performed well for TransAlta. They simply didn't fit with our new strategic plan, so we moved quickly to redeploy the more than $1.3 billion of capital we realized from these sales into **investments that solidify our generation focus.**

Stephen G. Snyder
President & Chief Executive Officer

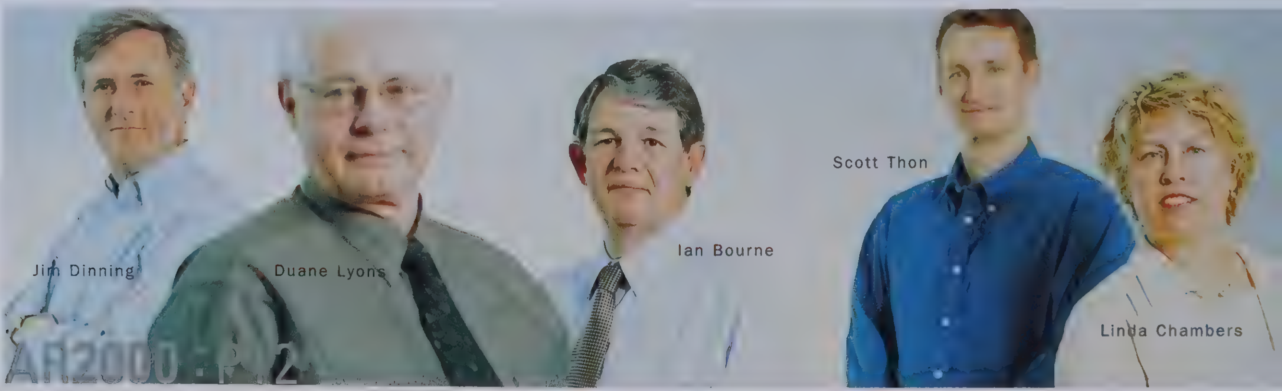
NEW CENTRALIA, WASHINGTON GENERATION FACILITY : We executed the Centralia, Washington 1,340 MW generation acquisition on May 5, 2000 – on time and on budget. Our Energy Marketing group's analysis said the timing was right for markets and pricing. They called it correctly. Our Generation team said they could leverage our experience running coal-mining operations alongside generation facilities (mine-mouth operations) and ensure cost competitiveness. They delivered. And so did our new Centralia team. They operated the plant at high capacity factors, invested $50 million in the mine for even greater productivity and gave us a **market edge** in the fast-changing and profitable Pacific Northwest market. At the end of 2000, Centralia represented approximately 17 per cent of TransAlta's total generating capacity. It is the platform to diversify our generation into the U.S. And, we have already announced plans early in 2001 to expand this facility by adding a 248 MW gas-fired power plant to this generating complex.

A SOLID YEAR : In 2000, we delivered $177.9 million in earnings from continuing operations, an 83 per cent increase from 1999, driven largely by the results in our Centralia and power marketing and trading businesses. These are excellent results during a period of extensive transformation. Because of the disposals and acquisitions this year, our reported earnings and earnings from continuing operations are quite different. We recorded a one-time non-cash charge of $209.7 million as a result of moving from a regulatory to a new non-regulatory accounting platform. Accordingly, our earnings per share from continuing operations were $1.05 and total net earnings were $1.66. Many of the challenges of year-over-year comparisons we encountered during this transition to competitive markets are now behind us.

The financial markets recognized and rewarded our performance in 2000 with a **55 per cent increase in the value of our common shares.** We believe this increase also reflects confidence in our new strategy, as well as an improved view of our sector by investors.

These results come from the focused efforts and hard work of TransAlta's 2,363 employees. They are **transforming our company by their exceptional everyday execution,** their commitment to going the extra mile and the courage they have to try new things. They have performed superbly in each of our businesses.

TRANSALTA'S EXECUTIVE TEAM



Going forward, we expect we can **grow annual earnings per share** by more than 10 per cent. We also intend to increase our long-term return on equity, which was regulated in the past, to 15 per cent.

DEREGULATING ALBERTA GENERATION : Our previously regulated coal and hydro generation in Alberta will continue to be a major source of earnings. The "power purchase arrangements" (PPAs), which became effective on January 1, 2001, provide the **opportunity for higher returns** than previously available under regulation.

These agreements, which vary in length between 3 and 20 years, incorporate nearly a decade of dialogue and discussion among public policy-makers, customers and utility managements. Rather than having rates set retroactively, the PPAs have the benefit of a **performance-based structure.** The implications are significant for TransAlta and you, our shareholders. Under the terms of the new PPAs, those same electrons that used to earn a rate of return that changed depending on regulatory rulings now earn a risk-adjusted return plus incentives based on our performance. Within the PPA structure, we have two opportunities to enhance our returns to shareholders. Productivity improvements are retained and, if TransAlta generates additional power over and above the contracted amount, we earn incremental revenues. We anticipate **increasing our return on equity** to 15 per cent if we perform exceptionally well.

Because the Alberta system of deregulation allows for bilateral contracts between generators and power suppliers, we do not expect the issues that have made California's deregulation process front-page news. Furthermore, the supply and demand outlook is in better shape with new plants to meet electricity growth in Alberta already being built by TransAlta and other companies.

In February 2001, we announced our plan to invest $1.8 billion to add 900 MW of generating capacity to our Keephills, Alberta low-sulphur coal-fired generating plant, bringing capacity to 1,654 MW by the anticipated commissioning date of early 2005. This expansion will further strengthen the **low-cost competitive advantage** our Generation business has built.

Deregulation will not be without its challenges, but we believe that for those companies who are prepared, there has never been a more **dynamic time to participate in our industry.**

Ken Stickland
Murray Nelson
Stephen Snyder
Dawn Farrell

WABAMUN OUTAGE : In October 2000 we announced that one of the four generating units at our Wabamun, Alberta power plant will be out of service for six to nine months. The plant was shut down to repair the unit's boiler, where cracking was discovered. The lost production in 2000 resulted in a pre-tax financial loss of approximately $18 million. In 2001, the unit became subject to the terms of a PPA and we believe the *force majeure* clause, which is subject to confirmation by the balancing pool administrator, protects TransAlta from a financial loss during the remaining repair period.

IPPs : GROWING GENERATION CAPACITY – HERE AND ABROAD : We made excellent progress toward our goal of **15,000 megawatts by 2005** by beginning construction on what will be one of Canada's largest cogeneration facilities at Sarnia, Ontario. This facility will solidify our strategic advantage by placing us in the emerging competitive power market in Ontario and the Northeast U.S. We plan to generate 650 MW of power, of which 175 MW will be used to fuel on-site industrials and 475 MW will be sold into this deregulating environment when the plant is completed in the fourth quarter of 2002.

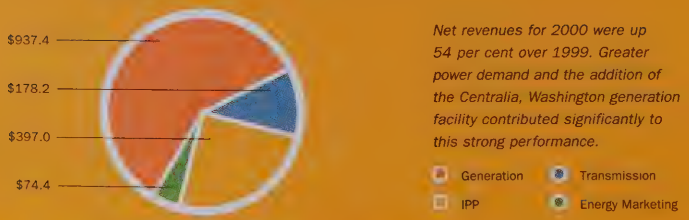
In the first quarter of 2001, TransAlta commissioned a 360 MW cogeneration facility at Poplar Creek, situated at Suncor's Fort McMurray oil sands facility. Approximately 150 MW of power and steam will fuel Suncor's plant with the remainder being sold, at market price, into the Alberta Power Pool.

We completed our first acquisition of 2001 by entering the New York energy market with a US$9 million purchase of a 55 MW gas-fired power plant in Binghamton, New York.

INTERNATIONAL EXPANSION : TransAlta has an excellent track record when it comes to developing power generation projects in other countries. We have successfully developed gas-fired power plants and transmission systems in Western Australia and New Zealand and in 1999 identified Mexico as a new IPP market that we wished to enter. In 2000, we secured a contract to build and operate a 250 MW power plant in Campeche, Mexico – the first of several projects we plan to pursue in this high-demand marketplace.

NET REVENUE BY BUSINESS SEGMENT

($ millions)



Net revenues for 2000 were up 54 per cent over 1999. Greater power demand and the addition of the Centralia, Washington generation facility contributed significantly to this strong performance.

In North America, annual power demand growth generally tracks growth in GNP at three or four per cent. In Mexico, the demand for power is growing at rates ranging from six to nine per cent annually – **tremendous growth rates** for an infrastructure-intensive business like power generation. Mexico is encouraging foreign investment and TransAlta is one of the first companies to recognize the relatively low risk and high return potential this region offers.

As of January 2001, all of these new initiatives have boosted our current megawatts in operation or under construction to 8,119 and our announced megawatts in future development to 1,148. We are well on our way to reaching our goal of having 10,000 MW of generation capacity by 2002 and have a **more expansive geographic base** from which to develop future opportunities.

ENERGY TRADING AND MARKETING : Market intelligence was a decisive factor in the success we enjoyed this past year. We saw unprecedented prices and volatility for both electricity and natural gas. Our energy marketing group delivered $53.7 million to our earnings before interest and taxes in 2000. The value they contributed confirms our belief in the strategic importance of transacting in regional markets where we also have physical assets.

However, the real long-term value of trading and marketing capability is the critical role it plays in **reducing our risks, identifying market opportunities** for our development teams and **enhancing, on a 24/7 basis, the output** from our generating facilities. They ensure we can physically deliver on our contracted power obligations. They also provide us with the capability to efficiently contract for our own energy supplies of natural gas to power our turbines.

Another important lesson we've learned in entering new power markets is that you can't do it as a third party. You have to be on the ground. Our 50 per cent interest in Merchant Energy Group of the Americas (MEGA) gives us first-hand knowledge of the U.S. markets, the players, the rules and the strategically critical transmission grid.

Specializing in the commercial management of power generation assets in the U.S., MEGA is an invaluable ally in our goal to develop more gas-fired generation projects.

SUSTAINED ENVIRONMENTAL LEADERSHIP : "Walking the talk" is a simple way of describing TransAlta's commitment to sustainable development. In 2000, we established our $100 million Sustainable Development Research and Investment Fund. Annual interest generated by the fund will be invested in **new technologies** to reduce carbon emissions, further environmental offset and credit use and develop renewable energy sources.

In March 2000, we introduced a proposal entitled 'Beyond Kyoto,' which outlines our plans to use new technology, renewable resources, emissions trading and offsets to bring our net Canadian emissions of greenhouse gas to zero by 2024. It's an ambitious target but one that we believe is achievable.

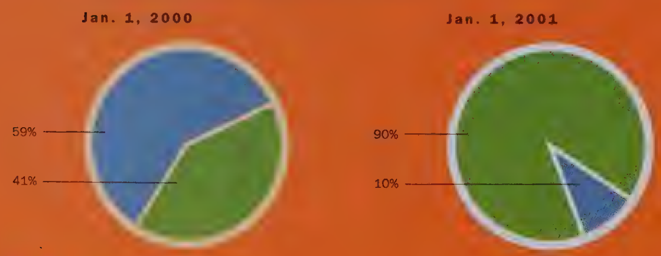
During the year we also grew our **investment in alternative energy sources,** investing $8.5 million in Vision Quest Windelectric Inc., a Calgary-based company pioneering the development of green wind-based power. We followed this investment with another $1.5 million commitment early in 2001. This will enable Vision Quest to purchase 40 new wind turbines and we've signed an agreement for this green energy to fully offset the electrical consumption of our Calgary head office building, which consumes about eight million kilowatt-hours annually.

We continued our **industry-leading emissions trading** efforts during the year as well, completing the first-ever transatlantic trade of carbon dioxide emissions reductions with the German electric company Hamburgische Electricitäts-Werke SG. This 24,000-tonne emissions reduction trade is equal to the annual emissions from approximately 3,000 cars. To date, TransAlta has reduced its Canadian net emissions by more than four million tonnes below 1990 levels.

Another integral aspect of our overall performance is employee health and safety. We have done much to improve employee awareness and safety practices, but we **can never be satisfied with less than 100 per cent** performance and zero incidents.

REFRESHING ATTITUDES : We did a lot in 2000. These bold and successful accomplishments were possible because of TransAlta's people. Our employees have become more focused, **increasingly innovative and growth-oriented.** We've transformed the framework that supports these individuals to support all of these changes.

DEREGULATED VS. REGULATED ASSETS



TransAlta previously operated as a predominantly regulated, vertically integrated utility. As of Jan. 1, 2001, 90 per cent of our generating assets operate under performance-based contracts. The only regulated portion of our business is Transmission.

Deregulated Assets
Regulated Assets

In 2000, we introduced an Employee Share Purchase Plan, which provides an interest-free loan to employees for up to 30 per cent of their base salaries for share purchases. Over 260 employees took advantage of this opportunity initially and participation is continuing to grow. As well, in 2000, we granted 500 share options to full-time employees and 250 share options to part-time employees, in addition to a similar number of options in 1999. During the past year we have also revamped our employee benefits and salary guidelines to enable us to more directly link job performance and reward. These programs are intended to give all TransAlta employees a **meaningful stake in the company's success.**

A POSITIVE OUTLOOK

Our focus on leadership is reflected in our good fortune to have Wayne Gretzky work with us as spokesperson for our Project Planet environmental education program. This program has attracted innovative environmental project submissions from hundreds of students and has succeeded in engaging young people in sustainable development pursuits. We like to think that going forward as a company we reflect the same trait that makes Wayne such a legendary hockey player. His father told him, "Skate to where the puck is going to be; not to where it has been."

His advice reminds us that transformation is not a finite activity that begins and ends on a specific date. It's both an ongoing attitude and a process that unfolds over time. The world is changing so fast that the ability to follow the trajectory of a hockey puck gives us a keen competitive advantage. We're confident we have the right team players, a profitable strategic focus and the wisdom to deliver.

Look for us to be where the "puck will be."

John T. Ferguson
Chair of the Board

Stephen G. Snyder
President & Chief Executive Officer

FUEL DIVERSITY BY MW

(based on generation operating or under construction as of Jan. 31, 2001)

TransAlta gains a strong competitive advantage from access to abundant, affordable Alberta coal reserves.

This is how we're doing.

PROFILE

GENERATION

$333.1 million in earnings before interest and taxes • 48 per cent of assets • Canada's largest non-regulated electricity generation company • 3,676 MW generating capacity from three coal-fired plants (plus 50 per cent ownership in a fourth) and 13 hydroelectric generating plants in Alberta • 1,340 MW generating capacity from a coal-fired plant and mining operation near Centralia, Washington

IPP

$31.5 million in earnings before interest and taxes • 24 per cent of assets • added 900 MW of new IPP development projects in 2000 • world's largest fleet of GE LM6000 gas turbines • largest independent power producer in Canada • second-largest independent supplier of power in Western Australia

TRANSMISSION

$85.2 million in earnings before interest and taxes • 10 per cent of assets • 11,600 kilometres of high-voltage transmission lines and 260 substations in Alberta • assets represent more than half of Alberta's transmission system • overall first-quartile performer in cost, reliability and efficiency in a survey of 48 North American companies

ENERGY MARKETING

$53.7 million in earnings before interest and taxes • targeted, regional trading in electricity, short-term gas supply and transmission access • focused in Alberta, Ontario and the U.S. Pacific Northwest, Midwest and Northeast • operates 24/7 to optimize asset returns and reduce risk • acquired a 50 per cent interest in MEGA in 2000 to enlarge U.S. gas-fired generation market opportunities

INDUSTRY OUTLOOK	GROWTH STRATEGY
On Jan. 1, 2001, TransAlta's Alberta generating plants began operating under long-term power purchase arrangements (PPAs). Alberta plant output is now sold under contractual terms to power marketing companies. In the U.S. Pacific Northwest, many electric utilities remain vertically integrated and regulated. While deregulation continues to present challenges in California, we are well-positioned to maximize market opportunity in this region through our newly acquired Centralia, Washington generating facility.	Our short-term target is to increase our total generating capability (including IPP) to 10,000 MW by 2002 and to 15,000 MW by 2005. To achieve these targets, TransAlta continually evaluates opportunities for profitable additions to and/or expansion of our generating capabilities. We plan to invest $1.8 billion to begin a 900 MW expansion of our Keephills, Alberta coal-fired generating facility.
TransAlta is continuing to expand its gas-fired power generation business in Canada, the U.S., Australia and Mexico. In 2000, we began construction on what will be one of Canada's largest cogeneration facilities at Sarnia, Ontario and secured our first contract to build a 250 MW facility in Campeche, Mexico. Demand for gas-fired generation continues to grow, despite unusually high natural gas commodity prices experienced in 2000, as North American electricity supply remains tight. Through the 50 per cent interest we acquired in MEGA (Merchant Energy Group of the Americas), we are continually evaluating new opportunities to expand our presence in the U.S. gas-fired generation market.	Our IPP goal is to add 500 MW of gas-fired generation per year. Early in 2001, TransAlta announced two new IPP initiatives – the acquisition of a 55 MW gas-fired plant at Binghamton, New York and plans to build a 248 MW gas-fired generation facility at our recently acquired Centralia, Washington generation facility. We also commissioned a new 360 MW gas-fired cogeneration facility located at Suncor's oil sands facility in Fort McMurray. As part of our business realignment process, we divested three gas-fired generation facilities: two plants totalling 472 MW in New Zealand and the 265 MW Mildred Lake cogeneration plant in Fort McMurray.
The North American market is characterized by regional congestion of transmission capacity. Deregulation is in various stages throughout North America with the structure and rules for independent transmission system operators still in development in most regions.	Outside of our Alberta service territory, our focus is on developing a competitive transmission services business, by unbundling our transmission engineering expertise and marketing this to a variety of transmission customers in select North American markets, particularly those characterized by growing electricity demand and transmission capacity constraints. We will continue to add value to our Generation and IPP businesses by using our power system and interconnection expertise on competitive generation project bids.
Our energy marketing group enlarged its U.S. market focus in 2000, expanding its trading activities into the Northeast and mid-continental U.S. regions. Pricing volatility and uncertainty surrounding North American deregulation markets, especially in California, created new opportunities. We continue to evaluate opportunities in Ontario as deregulation approaches. Ontario is the largest emerging electricity market in Canada and has a number of critical interconnections with the Northeastern U.S. and Eastern Canada.	Energy Marketing's primary focus is to provide risk management by ensuring we physically deliver against all of our contractual power obligations, while maximizing the value of this electricity output. Energy Marketing also supports the IPP and Generation businesses by managing natural gas supply, selling capacity not already contracted and establishing valued customer relationships in targeted regional markets. We are enlarging our Energy Marketing operations in several strategic U.S. regions.

This is where we do it.

MAP OF OPERATIONS

Information as of Jan. 31, 2001

GENERATION

COAL-POWERED PLANTS	5,016 (MW)
COAL-POWERED PLANTS (PLANNED)	900 (MW)
HYDRO-POWERED PLANTS	800 (MW)

IPP

GAS-POWERED PLANTS	1,403 (MW)
GAS-POWERED PLANTS (UNDER CONSTRUCTION)	900 (MW)
GAS-POWERED PLANTS (PLANNED)	248 (MW)

TRANSMISSION

ALBERTA	
TRANSMISSION LINES	11,600 (km)
SUBSTATIONS	260
AUSTRALIA	
TRANSMISSION LINES	500 (km)

ENERGY MARKETING

ENERGY MARKETING OFFICES CALGARY PORTLAND ANNAPOLIS (MEGA)	3

ROWS 1 AND 2 : Project Planet spokesperson Wayne Gretzky challenges schoolchildren to champion environmental initiatives.

ROWS 3 AND 4 : TransAlta strives for effective, positive relationships with the people and communities in which we operate.

ROWS 5 AND 6 : Extensive environmental testing and reporting is conducted at all of our power generation facilities.

At TransAlta, we view our role in the community as that of an enabler. Our partnerships are innovative, collaborative and full of potential. In 2000, we invested approximately $5.34 million in philanthropic and community programs.

PROJECT PLANET : Engaging young people in sustainable development is the goal of Project Planet, which was first introduced to Alberta with Canada's hockey legend, Wayne Gretzky. In 2000, TransAlta extended the reach of this flagship environmental program to youth in Ontario, launching it at Vincent Massey Public School in Ottawa.

UNITED WAY : TransAlta's employees continued to demonstrate their real concern for the community by donating $533 thousand to the 2000 United Way campaign. TransAlta continued our practice of providing company funds matching employee donations for a total contribution of $1.066 million.

ABORIGINAL RELATIONS : TransAlta takes a proactive approach to working with Aboriginal communities in Alberta. Our goal is to build positive, long-term relationships.

LISTENING TO THE COMMUNITY : Through TransAlta Community Transformers (TACT), an employee-led donations committee and POWER (Projects Organized with Energetic Retirees), TransAlta receives grassroots input on community investment decisions and contributes time and talent to many worthwhile community projects. Since 1998, 8,000 volunteer hours have been contributed by POWER.

CALGARY EXHIBITION & STAMPEDE : A cornerstone of our community involvement in Calgary is our support of the Calgary Stampede. In 2000, this unique and innovative partnership was exemplified by the unveiling of the new TransAlta Stage – home to the evening Grandstand Show which entertains thousands of guests every July.

CALGARY ZOO : In Calgary, Alberta, our operating headquarters, we committed to be the lead corporate sponsor of TransAlta's Tropical Africa Pavilion at the Calgary Zoo. This facility will help transform the Calgary Zoo into more of a year-round destination.

EDMONTON INTERNATIONAL FRINGE FESTIVAL : The Edmonton International Fringe Festival is North America's leading theatre festival and in 2000 attracted more than 450,000 guests. Our sponsorship supports Fringe Theatre Adventures in enhancing the cultural fabric of the city while enabling the organization to refurbish the site of its major productions – the Arts Barns facility.

2000 HIGHLIGHTS

SPRING TransAlta leapt into spring with its support of the Turning Points dinner. This event, organized by the Calgary Women's Emergency Shelter, highlights the need to find solutions to domestic violence and raises funds to support the Shelter's outreach and support programs for women, children, men, and now, teens, in Calgary schools and community organizations.

SUMMER TransAlta sponsored the Blueberry Festival in Fort McMurray. This innovative community event contributes significantly to the quality of life in a community where TransAlta is establishing new operations.

FALL – Rodeo excitement was the order of the day at the Canadian Finals Rodeo in Edmonton. TransAlta was proud to sponsor this action-packed event, which attracts cowboys and spectators from across the country.

WINTER The Calgary Zoo came alive with lights during this year's edition of TransAlta's Wildlights. This innovative display of over one million lights is accompanied by fun-filled entertainment and numerous activities and was attended by over 70,000 Calgarians and visitors.

Sustainable development is a vital factor linking individuals, communities, environmental groups, businesses, regulators, governments and countries. It's a force for encouraging co-operation and enabling diverse stakeholders to work together in pursuit of thoughtful, long-term solutions to the environmental, health and safety challenges we share.

At TransAlta, we have earned an enviable reputation for sustainable development leadership – one we intend to protect and maintain by pursuing proactive, cost-effective and responsible initiatives.

BEYOND KYOTO : Our most intensive sustainable development efforts are aimed at climate change issues, as TransAlta generates most of its electricity through the combustion of fossil fuels, including coal and natural gas. A significant by-product from the combustion of these fuels is carbon dioxide (CO_2).

In 2000, TransAlta introduced a blueprint for achieving zero net emissions of greenhouse gas from Canadian operations by 2024. The key elements of this plan include: applying emissions trading and offsets; increasing investment in renewable energy; and developing and demonstrating new technologies.

CLEARING THE AIR : TransAlta is a founding member of The Canadian Clean Power Coalition, a national association of coal and coal-fired electricity producers. The coalition is working with government and interested private sector partners to research and develop commercially viable new technology that removes greenhouse gases and all other air emissions of concern from an existing power plant. The coalition will concurrently work on developing similar technology for a brand new plant.

INVESTING IN A CLEANER FUTURE : In May 2000, TransAlta created the $100 million Sustainable Development Research and Investment Fund for investments in carbon offsets and renewable energy and the development of new technology.

The first investment from this fund was the acquisition of a $5 million interest in Vision Quest Windelectric Inc., a privately owned, Calgary-based company that develops, owns and operates wind energy power plants. This initial investment was followed by another $3.5 million investment later in 2000.

Ultimately, sustainable development is about balance. TransAlta is committed to delivering shareholder value through economic growth and operating in a manner that respects the environment and demonstrates social responsibility.

For additional information about TransAlta's sustainable development programs and progress, please refer to our Sustainable Development Annual Report, which may be obtained by contacting our Investor Relations department and requesting the CD, or by visiting our Web site at www.transalta.com.

AR2000

This is how we see it.

OVERVIEW

TransAlta's strategy is to focus its growth in generation in selected national and international markets. The focus will include coal, hydro and gas-fired projects. Energy marketing and transmission services will be used to leverage these assets to higher returns. TransAlta's competitive advantages include its top-quartile operating cost and performance measurements, access to low-cost, low-sulphur coal and industry-leading gas-fired turbine operating efficiencies.

This review of TransAlta's 2000 financial results is organized by consolidated results and by business segments. TransAlta has four business segments: Generation, Independent Power Projects (IPP), Transmission and Energy Marketing, all supported by a corporate group. The business segments assume responsibility for their operating results measured as earnings before interest, taxes and non-controlling interests (EBIT). Corporate overheads are allocated to the business segments based upon a combination of utilization rates and net revenues. The following analysis is based on TransAlta's consolidated financial statements, with reference to the notes to the financial statements. All tabular amounts in the following discussion are in millions of dollars unless otherwise noted.

KEY HIGHLIGHTS

- Earnings from continuing operations increased 84 per cent to $1.05 per share in 2000 compared to $0.57 per share in 1999
- Production increased by seven per cent to 40,644 GWh from 37,879 in 1999
- Acquired the 1,340 MW Centralia power plant and mining operation for US$582.7 million
- Purchased a 50 per cent interest in the Merchant Energy Group of the Americas (MEGA) for US$12.5 million to provide the base for gas-fired generation growth in the U.S.
- Signed agreements and committed to construct and operate the $400 million, 650 MW cogeneration power plant in Sarnia, Ontario and the US$200 million, 250 MW power plant in Campeche, Mexico
- Sold the discontinued New Zealand operations (after-tax gain of $22.3 million) and the Alberta Distribution and Retail (D&R) operation (after-tax gain of $262.4 million) and announced plans to sell the Edmonton Composter plant
- Invested $8.5 million in Calgary-based Vision Quest Windelectric Inc.
- Obtained U.S. issuer credit ratings of A- and A3 from Standard & Poor's and Moody's, respectively
- Paid dividends of $1.00 per common share

SEGMENT EBITS

1999

2000

Our newly acquired Centralia generation facility and a strong electricity trading performance by Energy Marketing were our most significant earnings drivers in 2000.

Generation · Transmission · IPP · Energy Marketing

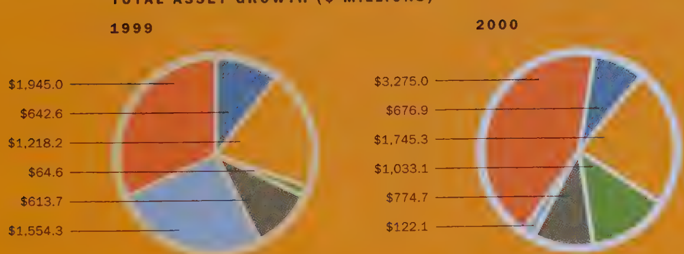
SUMMARY OF RESULTS

TransAlta's net earnings applicable to common shares increased by $109.7 million to $279.8 million ($1.66 earnings per share – EPS) from $170.1 million ($1.00 EPS). Higher earnings came from non-regulated activities in Generation as a result of the operations of the newly acquired Centralia power plant and improved performance from the Energy Marketing business, combined with $284.7 million of gains on the disposals of the D&R operations. These increases were partially offset by a $17.9 million write-down on the discontinued Edmonton Composter operation and an extraordinary loss of $209.7 million arising from a change in accounting policy associated with the deregulation of Alberta Generation operations. Earnings from continuing operations applicable to common shareholders increased to $177.9 million ($1.05 EPS) in 2000 from $97.0 million ($0.57 EPS) in 1999. These increases were mainly due to the higher non-regulated earnings.

Cash flow from operating activities declined to $188.7 million ($1.12 per share) from $422.0 million ($2.49 per share) in 1999 due to higher earnings before non-cash items being more than offset by increased investment in working capital. Higher working capital primarily resulted from income tax recoveries related to the Alberta D&R business sale, increased trade receivables related to Centralia production and Energy Marketing activity as well as deferred accounts receivable from the discontinued Alberta D&R operation caused by significantly higher market electricity prices. When TransAlta purchased electricity for distribution in Alberta at prices that exceeded those allowed by the regulator, the corporation was obligated to defer collection of the difference. The related proceeds from the disposal of these deferred accounts receivable, totalling $164.3 million ($0.97 per share) upon disposition of the business on Aug. 31, 2000 ($136.0 million at Dec. 31, 2000), will be classified as cash provided by investing activities. Recovery of these amounts plus interest is expected between 2002 and 2004. After adjusting for these deferred accounts receivable, cash flow from operations for the year ended Dec. 31, 2000 was $353.0 million.

During 2000, capital expenditures and the acquisitions of Centralia and MEGA were fully funded by cash provided by operating activities in combination with proceeds from the disposal of the discontinued New Zealand and D&R operations. As a result, at Dec. 31, 2000, the corporation's debt to debt-plus-equity ratio was 48 per cent.

TOTAL ASSET GROWTH ($ MILLIONS)



In 2000, TransAlta's asset base grew to $7,627.1 million – an increase of $1,588.7 million.

Generation · Energy Marketing · IPP · Other · Transmission · Discontinued

CONSOLIDATED SUMMARIZED STATEMENTS OF EARNINGS

(in millions except earnings per share – EPS)	2000	1999	Explanation
Revenues	$ 1,587	$ 1,029	Revenues for Centralia combined with increased Energy Marketing activity and a full year of production from new Western Canada IPP plants
Segment EBIT			
Generation	333	190	Acquisition of Centralia and receipt of $44 million of regulatory decisions in 2000 related to 1999, offset by Wabamun plant outage
IPP	32	40	Full year contribution from new plants offset by amortization of acquired MEGA intangibles, lower revenues from Syncrude and higher corporate allocations
Transmission	85	90	Lower engineering, procurement and construction revenue combined with higher operating, maintenance and administrative expenses partially offset by lower allocated corporate overheads
Energy Marketing	54	(2)	Significantly increased back-to-back arbitrage trading activities
	504	318	
Net interest expense, preferred securities and other	(115)	(84)	Higher debt associated with operating activities combined with higher average interest rates
Income taxes	(169)	(106)	Higher pre-tax income offset by lower effective tax rate
Non-controlling interests	(42)	(31)	Increased due to fair value liability of natural gas swap with limited partnership offset by lower dividends on preferred shares of a subsidiary
Continuing earnings to common	178	97	
Discontinued operations			
Operations	45	54	Higher distribution volumes and increased sales to high rate customers in D&R offset by 8 and 3 months of earnings in 2000 for D&R and New Zealand, respectively, versus full year in 1999
Gains on disposals	266	19	In 2000, $262.4 gain on sale of D&R, $22.3 gain on sale of New Zealand and $17.9 write-down of Edmonton Composter. 1999 comprised of recovery of Argentina unutilized credit facility provision
Extraordinary item	(210)	–	Recognition of previously unrecorded future income taxes and write-down of capital assets related to Alberta generation due to change in accounting policy as a result of deregulation
Net earnings applicable to common	$ 279	$ 170	
Basic EPS			
Earnings from continuing operations	$ 1.05	$ 0.57	
Earnings from discontinued operations	0.27	0.32	
Earnings from operations	1.32	0.89	
Gains on disposals of discontinued operations	1.58	0.11	
Extraordinary items	(1.24)	–	
Net earnings to common	$ 1.66	$ 1.00	

SIGNIFICANT ONE-TIME ITEMS

The consolidated financial results include the following significant one-time items:

A: Prior Period Regulatory Decisions

On Feb. 1, 2000, the Alberta Energy and Utilities Board (EUB) announced an amendment to its Phase I decision (the 1999 Final Decision) concerning the 1999 generation deferral account calculations that partially offsets the effect of its decision received in November 1999. The positive impact of the 1999 Final Decision increased allowable 1999 rates by $30.6 million and net earnings by approximately $16.4 million ($0.10 EPS), and was recorded in the first quarter of 2000.

In September 2000, TransAlta negotiated a settlement under the Temporary Suspension Regulation (TSR) to compensate the corporation for obligation payments incurred as a result of Alberta generation production outages occurring in 1999 and 2000. Approximately $13.5 million ($7.4 million after-tax or $0.04 EPS) of this settlement related to 1999 outages.

B: Extraordinary Item

On Dec. 31, 2000, TransAlta discontinued regulatory accounting and commenced the application of generally accepted accounting principles for non-regulated businesses for its Alberta generation operations, following final confirmation of deregulation of the electricity generation industry in Alberta beginning on Jan. 1, 2001. As a result of the discontinuance of regulatory accounting, the corporation recorded an extraordinary non-cash after-tax charge of $209.7 million ($1.24 EPS). Of this amount, $189.9 million ($1.13 EPS) results from the recognition of future income tax liabilities that the corporation was previously exempted from recording due to the regulatory environment.

In 1993, the Government of Alberta began a process to deregulate aspects of the Alberta electricity industry. Under this process, long-term power purchase arrangements (PPAs) were developed for existing regulated electricity generation. These PPAs were then auctioned to the public in 2000. Under the PPAs, which commenced Jan. 1, 2001, owners of the generating plants receive capacity payments and compensation for variable costs of producing electricity. The PPAs also provide incentives for exceeding specific plant availability targets. Owners are penalized, however, if the specific plant availability targets are not met and therefore full recovery of their costs is not assured in the future. In December 1999, the EUB approved the PPAs. Uncertainty as to the commencement of deregulation continued as a result of the requirement of Government of Alberta acceptance of the results of the PPA auctions. In August and December 2000, the results of the auctions of PPAs were accepted by the Government of Alberta, thereby removing this uncertainty.

C: New Accounting Standards

In 2000, TransAlta retroactively applied the new accounting standard for future income taxes. The new standards require the use of the liability method of accounting for income taxes, except for rate-regulated operations. The change in accounting policy had decreased 2000 earnings by $2.6 million ($0.02 per common share) and reduced net earnings in 1999 by $16.3 million ($0.10 per common share). Working capital increased by $30.3 million (1999 – $0.8 million), future income tax assets increased by $9.1 million (1999 – $6.1 million), capital assets increased by $15.6 million (1999 – $nil), future income tax liabilities increased by $57.6 million (1999 – $6.9 million) and opening retained earnings increased by $nil (1999 – $16.3 million).

SEGMENTED BUSINESS RESULTS

Generation

	Revenue	EBIT
Year ended 1999	$ 556.3	$ 190.2
1999 deferral accounts recovered in 2000	30.6	30.6
TSR settlement related to 1999 outages	13.5	13.5
Acquisition of Centralia plant	377.3	129.8
Wabamun unit shutdown	(18.0)	(18.0)
Discount on deferral accounts receivable due to delayed receipt	(9.2)	(9.2)
Higher fuel, maintenance, depreciation and other	(13.1)	(3.8)
Year ended 2000	**$ 937.4**	**$ 333.1**

RESULTS : 2000 results for Generation include the impact of prior period regulatory decisions as described previously. The 1999 Final Decision recorded in the first quarter of 2000 increased Generation's EBIT by $30.6 million. The TSR negotiated settlement related to outages in 1999 and 2000, and was received and recorded in September 2000. Of the total TSR received, $13.5 million related to 1999 outages.

After adjusting for the impact of these regulatory decisions, Generation's EBIT increased over the prior year by 52 per cent from $190.2 million to $289.0 million, mainly due to the acquisition of the Centralia plant in May 2000. The impact of the shutdown of one Wabamun unit, the recognition of discounts on the delayed receipt of deferral accounts receivable and lower hydro production volumes were partially offset by increased production from other Alberta thermal generating plants.

Generation's production increased by 5,651 gigawatt hours (GWh) to 34,368 GWh from 28,717 GWh in 1999. Of this amount, 6,267 GWh was produced by the Centralia plant. Alberta generation produced 28,101 GWh compared with 28,717 GWh in 1999 as the impact of the shutdown of one Wabamun generating unit and lower hydro generation volumes were partially offset by increased production from other thermal plants.

Gross Margin/MWh (defined as revenues less fuel and purchased power divided by production) increased to $18.64 per MWh from $15.51 per MWh primarily as a result of the addition of higher margin Centralia production. Gross margin from Alberta generation in 2000 was comparable with 1999. As a result of the uncertainty surrounding the actual acquisition date of Centralia due to delays in regulatory approval, a large portion of the plant's second quarter production had not been contracted and the corporation was therefore able to take advantage of high spot market prices. Subsequently, a significant portion of Centralia's third and fourth quarter production was contracted at fixed prices and was not subject to market price fluctuations, save for one major contract that was subject to market prices within a specified range. The remaining production sold at spot prices averaging US$171 per MWh. In addition, Generation results include a provision for doubtful receivables of $5.7 million made in respect of Centralia sales to the California market.

In the fourth quarter of 2000, the Government of Alberta amended the *Electric Utilities Act (Alberta)* to delay collection of the deferral accounts receivable from 2001 to between 2002 and 2004. As a result, the corporation recorded a reduction in revenues of $9.2 million, reflecting a write-down of the outstanding receivable to its discounted value.

On Aug. 3, 2000, Wabamun's 300 MW generating unit was shut down when an examination of the unit's boiler indicated cracks in some tubing. Further investigation confirmed the cracking and, as a result, the unit will remain shut down until mid-2001 pending repairs to the boiler. As a result of this shutdown, the corporation incurred $18.0 million in obligation payments relating to 2000 for which it has filed for relief with the regulator with a decision expected in the first half of 2001. Under the *force majeure* article of the PPAs that commence Jan. 1, 2001, the corporation expects that it has no obligations during the period of repair and as such, no amount was provided for any potential obligations in the 2001 period.

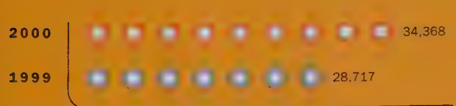
OUTLOOK : In 2001, Generation's Alberta operations (coal and hydro) will become non-regulated and subject to the provisions of the PPAs. The PPAs are long-term supply arrangements for the remaining life of each power plant or unit. These contracts set a production requirement and availability target to be supplied by each plant/unit and the price at which each MWh will be supplied to the customer. TransAlta bears the risk or retains the benefit of volume variances (except for those considered *force majeure*), and any change in costs required to maintain and operate the generation plants.

Under the terms of the PPAs, TransAlta is not exposed to credit risk and is only exposed to electricity price risk in the event of an unplanned outage that does not qualify as a *force majeure* event. Should such an outage occur, the corporation must pay a penalty for the lost production based upon a price equal to the 30-day trailing average of Alberta market electricity prices. The corporation mitigates this exposure through high-quality operating and maintenance practices and trading activities.

Increased risks borne by TransAlta are compensated for by higher pricing than received under regulation. Key elements of the pricing formula are the amount of common equity deemed to form part of the capital structure and the amount of risk premium (measured as a spread over long-term government bonds). The return on equity is set annually at a 4.5 per cent premium over long-term government bonds. Under the PPAs, common equity is deemed to be 45 per cent. In 2001, the return on equity has been set at 10.29 per cent.

The pricing formula of the PPAs includes a provision for site restoration costs of the thermal generating plants. The PPAs, however, do not provide compensation for site restoration costs related to TransAlta's hydro generating facilities. It is unlikely that these facilities will be dismantled, however, given the additional non-generating functions that they provide such as water supply, irrigation and flood control. As a result, while the magnitude of these costs is material, the likelihood that they will be incurred is low. The acquisition of the Centralia operations, which are not subject to these PPAs, included the assumption of US$113.2 million of future site restoration liabilities associated with the plant and mine operations.

GENERATION : PRODUCTION (GWh)



GENERATION : GROSS MARGIN PER MWh

Our highly efficient Centralia generating facility, in which a coal mine runs alongside the generating plant, boosted Generation gross margins by more than $3.00 for each MW hour produced.

In late 2000, the Alberta government announced electricity price caps to mitigate the effect of high electricity prices on small consumers. By virtue of the pricing formula in the PPAs, and TransAlta's sale of its D&R operation, the company is unaffected by these price caps.

Prior to the acquisition of the 1,340 MW coal-fired generation plant and mine in Centralia, TransAlta signed a number of medium- to long-term energy sales contracts for the plant's output. During 2001, a greater proportion of the plant's output will be dedicated to deliveries under the terms of these contracts compared to 2000, with a corresponding lower amount subject to market prices. In order to fulfill environmental obligations and improve plant output, two scrubbers will be installed in Centralia. Installation of the first scrubber will require a nine-week shutdown and is scheduled to be completed in 2001 and operational by the end of the second quarter.

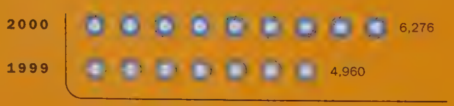
TransAlta continues to evaluate Generation opportunities to grow its business in the Western System Coordinating Council (WSCC) region. The WSCC region extends from Canada to Mexico and includes the provinces of Alberta and B.C., the northern portion of Baja, California, Mexico and all or portions of the 14 western states in between. In February 2001, TransAlta announced plans for a 900 MW expansion of its Keephills power plant to be completed in 2005 at an expected cost of $1.8 billion. During 2001, TransAlta will also be seeking new Generation opportunities in Australia to complement IPP activities and to identify other regions that fit TransAlta's operating capabilities and risk profile.

Independent Power Projects (IPP)

	Revenue	EBIT
Year ended 1999	$ 272.5	$ 39.8
Full year of production from Western Canada plants	88.7	12.2
Poplar Creek operations and maintenance contract	14.8	2.4
Lower Mildred Lake (Syncrude) power plant earnings	11.3	(4.3)
Improved limited partnership earnings	7.6	3.0
Amortization of MEGA acquired intangibles	–	(10.0)
Lower dividends from Australian pipeline investment	–	(1.7)
Higher allocated corporate overheads	–	(7.3)
Other	2.1	(2.6)
Year ended 2000	**$ 397.0**	**$ 31.5**

RESULTS : The IPP segment recorded EBIT of $31.5 million in 2000 compared to $39.8 million in 1999. A full year of operations of the Fort Nelson, Fort Saskatchewan and Meridian plants contributed additional EBIT of $12.2 million in 2000. The plants were commissioned in May 1999, November 1999 and December 1999, respectively. This contribution was

IPP : PRODUCTION (GWh)



IPP : GROSS MARGIN PER MWh

High natural gas prices impacted fuel costs for our gas-fired generating facilities, lowering overall gross margins by $3.38 per MW hour in 2000.

more than offset by amortization of $10.0 million of intangibles arising from the MEGA acquisition, higher allocated corporate overheads of $7.3 million, and $4.3 million in decreased EBIT from the Mildred Lake (Syncrude) plant, which was sold in January 2001.

IPP's production increased by 1,316 GWh and 0.7 million tonnes of steam to 6,276 GWh and 4.5 million tonnes of steam in 2000 from 4,960 GWh and 3.8 million tonnes of steam in 1999. This reflects the first full year of operations of the plants which came on stream in 1999. Gross margin per MWh was $31.58 per MWh in 2000 compared with $34.96 per MWh in 1999 due to the impact of high natural gas prices on fuel costs of plants owned by TransAlta Cogeneration, L.P.

On May 5, 2000, TransAlta acquired a 50 per cent interest in MEGA to serve as the platform on which to develop U.S. IPP initiatives. Based in Annapolis, Maryland, MEGA has several business relationships with prominent power producers.

OUTLOOK : IPP's EBIT will be positively impacted in 2001 by the commencement of operations of the Poplar Creek plant at Suncor's Fort McMurray facility. This 360 MW cogeneration facility is scheduled to become fully operational in the first quarter of 2001, delivering approximately 150 MW of electricity and steam to Suncor with the remainder to the Alberta power pool. The Sarnia cogeneration facility will begin construction by the end of the first quarter of 2001 and upon expected completion in the fourth quarter of 2002, will generate 650 MW. TransAlta continues to look for high-quality IPP projects throughout Canada.

With the acquisition of a 50 per cent interest in MEGA in 2000, TransAlta has entered the U.S. market with a strategy to acquire and build IPP projects in selected U.S. areas. The initial focus will be in the Northeast, Southeast and Midwest. TransAlta completed its first U.S. IPP acquisition in January 2001, a 55 MW peaking plant located in upper New York State. The plant is expected to deliver earnings in 2001. In February 2001, TransAlta announced plans to construct a US$210.0 million 248 MW gas-fired plant on the site of the Centralia generating plant with completion expected in mid-2002.

TransAlta's entry into the Mexican market will continue to gain momentum in 2001, following the successful bid for a 250 MW combined cycle plant in Campeche State. Construction will begin in the first quarter of 2001 and completion is targeted in the first quarter of 2003. In December 2000, TransAlta finalized a US$133.6 million non-recourse debt facility to finance the construction of Campeche. TransAlta plans to bid on additional high-quality projects of similar size and scope being placed for bid by the Mexican Electrical Authority in 2001.

In Australia, TransAlta will enhance its current portfolio with new opportunities on both the west and east coasts of the country. In Western Australia, where TransAlta's operations are currently located, increased demand for electricity and the beginning of market deregulation continue to present several opportunities. TransAlta will also pursue opportunities in the Eastern Australian market in 2001.

Significant price volatility and the relatively high natural gas prices experienced in Canada and the U.S. in 2000 are expected to continue through 2001. For contracted sales, TransAlta's exposure to this volatility, however, is significantly mitigated by virtue of the flow-through of the cost of natural gas to customers in long-term IPP electricity sales contracts and price caps in certain natural gas supply contracts. For non-contracted sales to the market, TransAlta's exposure to this volatility is mitigated by hedging activities and the correlation between natural gas and electricity prices.

Transmission

	Revenue	EBIT
Year ended 1999	$ 189.6	$ 89.5
Lower non-regulated activities	(9.5)	(2.4)
Other	(1.9)	(1.9)
Year ended 2000	**$ 178.2**	**$ 85.2**

RESULTS : Transmission's earnings are derived primarily from regulated operations with rates based upon the Decision rendered in November 1999. In 2000, lower non-regulated engineering, procurement and construction activities (EPC) resulted in a decrease in EBIT of $2.4 million. Lost operational synergies upon the disposal of the Alberta D&R operation as well as lower amounts capitalized partially offset by reduced allocated corporate overheads account for the remaining difference.

OUTLOOK : In January 2001, Transmission received EUB approval for its negotiated settlement on regulated Alberta rates for 2001. Transmission's regulated revenues will be fixed except for a deferral account for the current year's capital additions on projects assigned by the Transmission Administrator to TransAlta. Transmission will remain exposed to the risks and opportunities of operating and capital expenditures differing from those reflected in the settlement.

TransAlta's transmission business ranks as a first-quartile performer in cost, reliability and efficiency in a survey of 48 North American utility companies. While our Alberta transmission business will remain regulated, in the long term the corporation intends to use its experience to pursue competitive EPC opportunities, offer value-added engineering consulting services, and explore partnerships to own and operate systems in targeted markets in Canada, the U.S., Mexico and Australia.

Energy Marketing

	Revenue	EBIT
Year ended 1999	$ 11.0	$ (1.8)
Increased back-to-back trading activity	100.9	100.9
Provision for California receivables	(37.5)	(37.5)
Increased operations and maintenance expenses	–	(5.3)
Higher allocated corporate overheads and other	–	(2.6)
Year ended 2000	**$ 74.4**	**$ 53.7**

2000 ENERGY MARKETING REVENUE SOURCES BY REGION

(per cent)

In 2000, TransAlta increased electricity trading activity significantly, particularly in the Pacific Northwest, where market volatility and prices were high.

RESULTS : Net revenue for Energy Marketing's operations (gross value of trades less associated commodity procurement costs) increased significantly in 2000 compared with 1999 due mainly to increased back-to-back trading activity, particularly in the Pacific Northwest and California where market volatility and prices were high. Revenue for this business is derived primarily from short-term, back-to-back trading of electricity and natural gas. In 2000, gross trading revenues totalled $1,276.9 million (1999 – $283.0 million) offset by trading purchases of $1,202.5 million (1999 – $272.0 million). This trading activity combined with sales made on behalf of the Centralia plant gave rise to significantly increased accounts receivable at Dec. 31, 2000 of $1,030 million (1999 – $62.7 million) offset by related accounts payable of $951.6 million (1999 – $51.5 million).

EBIT increased by $55.5 million mainly due to the increased controlled arbitrage trading revenues. Late in 2000, the California market experienced severe constraints that increased wholesale market prices significantly. As a result, there was intervention by the Federal Energy Regulatory Commission and state regulators on pricing and supply. The full implication of their actions is not yet known. At Dec. 31, 2000, TransAlta had US$66.2 million of receivables outstanding related to these sales (with US$7.6 million of this amount related to Centralia sales), US$8.6 million of which had been collected by Jan. 31, 2000. TransAlta has provided for US$28.8 million of the remaining balance, US$3.8 million of which relates to Centralia sales. The provision will be reversed upon collection of amounts owing provided that management is confident that subsequent repayment of any such amounts as a result of retroactive changes to trading regulations from those under which TransAlta completed its trades with California entities will not occur.

Energy Marketing operates on behalf of the other business segments to sell electricity produced and purchase natural gas not covered by long-term contracts, to establish long-term contracts for the sale of electricity and the purchase of natural gas, and to purchase and sell transmission capacity to transmit electricity. The result of these arrangements and the costs to execute them are included in the appropriate business segment results.

OUTLOOK : Market volatility in the Pacific Northwest and California is expected to decline somewhat in 2001 and competition in all markets is expected to increase. As a result, Energy Marketing's net revenue and EBIT are expected to decrease in 2001 versus 2000. In addition, growth and effort will be directed at improving returns and managing higher activity levels related to assets in the Generation and IPP business segments, rather than increasing proprietary trading activities.

NET INTEREST, PREFERRED SECURITIES AND OTHER EXPENSES

	2000	1999
Interest expense	**$ 124.6**	$ 94.2
Interest income	**(23.8)**	(15.1)
Preferred securities distributions, net of tax	**12.8**	5.2
Other expense (income)	**1.0**	–
	$ 114.6	$ 84.3

Year ended 1999	$ 84.3
Increased debt levels	20.1
Increased capitalized interest and AFUDC*	(7.9)
Higher effective interest rates	18.4
Increased preferred securities distributions, net of tax	7.6
Increased interest and other corporate income	(7.9)
Year ended 2000	**$ 114.6**

** Allowance for funds used during construction*

RESULTS : Interest expense is net of capitalized interest and AFUDC as well as amounts directly related to or allocated to discontinued operations which totalled $15.6 million in 2000 and $51.3 million in 1999. Interest expense before capitalized interest and AFUDC increased by $20.1 million in 2000. This was primarily due to increased borrowings in late 1999 being outstanding for the full year 2000 and the refinancing of TransAlta Utilities Corporation preferred shares with debt combined with higher effective interest rates. Effective interest rates were approximately 7.1 per cent in 2000 compared with 6.4 per cent in 1999. Capitalized interest and AFUDC amounts grew to $39.8 million in 2000 from $15.4 million in 1999 due to increased construction activity. Interest and other corporate income increased by $7.9 million, reflecting a full year of interest income on the New Zealand dollar restricted investment in 2000. Preferred securities distributions, net of tax, were $7.6 million higher as the preferred securities issued in April and December 1999 were outstanding for the entire year in 2000. This charge was deducted from net earnings for the purpose of calculating earnings per common share from continuing operations and net earnings per common share.

OUTLOOK : Net interest expense is expected to increase in 2001 due to reduced capitalized interest as a result of the commencement of operations at the Poplar Creek plant, increased borrowings and higher average interest rates due to the refinancing of short-term debt. Interest capitalized during construction in 2001 will relate to construction activity on the Sarnia and Campeche projects, as well as the installation of scrubbers for Centralia. The preferred securities distribution is expected to remain constant in 2001 as there were no new issuances in 2000.

INCOME TAXES

	2000	1999
	$ 169.4	$ 105.5
Effective tax rate	**42.2%**	44.2%

RESULTS : Income taxes are net of amounts directly related to discontinued operations as well as an allocation of income taxes on allocated direct corporate overheads and interest expenses. Income taxes increased by $63.9 million mainly due to the increase in pre-tax earnings. The effective income tax rate (expressed as a percentage of earnings from continuing operations before income taxes and non-controlling interests) decreased by 2.0 per cent primarily due to higher earnings from lower tax rate jurisdictions.

OUTLOOK : Income taxes are expected to increase in 2001 due to higher pre-tax earnings; however, the effective tax rate is not expected to change materially from that experienced in 2000.

NON-CONTROLLING INTERESTS

	2000	1999
	$ 41.6	$ 30.9

RESULTS : Non-controlling interests' share of TransAlta's consolidated earnings from continuing operations after income taxes increased by $10.7 million. Non-controlling interests related to TransAlta Power, L.P.'s (L.P.) 49.99 per cent limited partnership interest in TransAlta Cogeneration, L.P.'s (TA Cogen) earnings increased by $1.1 million as a result of increased partnership earnings and a $19.0 million charge reflecting the minority interest portion of the fair value liability of a natural

gas swap between TA Cogen and the corporation. The swap transaction provided TA Cogen with fixed price gas for both the Mississauga and Ottawa plants over the next five years. The floating prices associated with the Mississauga and Ottawa plants' long-term fuel supply agreements were transferred to the corporation's account. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration and in negotiation, TA Cogen transferred the right to incremental revenues associated with curtailed electrical production and subsequent higher revenue gas sales to the corporation. The swap was entered into by TransAlta to stabilize cash distributions of the limited partnership for five years at levels consistent with previous years, thereby preserving the value of the limited partnership as a financing vehicle of TransAlta. These charges were partially offset by $9.4 million of lower subsidiary preferred dividends as a result of the redemption of the 8.4 per cent Series of preferred shares of TransAlta Utilities Corporation in March 2000.

OUTLOOK : Excluding the $19.0 million charge related to the swap transaction, no significant changes in non-controlling interests are anticipated in 2001. As a result of the swap transaction, the minority interest related to the L.P. will be unaffected by movements in natural gas prices over the next five years.

DISCONTINUED OPERATIONS

		Date Sold	2000	1999
Alberta D&R	– earnings from operations	Aug. 31, 2000	**$ 33.3**	$ 21.8
	– gain on disposition		**262.4**	–
New Zealand	– earnings from operations	Mar. 31, 2000	**10.8**	31.6
	– gain on disposition		**22.3**	–
Edmonton Composter	– earnings from operations		**0.7**	–
	– write-down of carrying value		**(17.9)**	–
Argentina *		December 1999	**–**	19.7
			$ 311.6	$ 73.1

** 1999 amount includes $12.4 million reversal of a provision resulting from the expiry of an unutilized standby credit facility*

Alberta Distribution and Retail (D&R)

RESULTS : Earnings from the discontinued D&R operation in Alberta include the effect of regulatory decisions relating to prior years consisting of a $5.3 million negative impact in 1999 due to the Phase II decision regarding rates for 1997 and 1996; and the Final Decision which increased 2000 earnings by $0.8 million. Excluding the impact of these decisions, earnings from the discontinued D&R business operation in Alberta increased despite the partial year until its disposition in 2000, primarily due to higher distribution volumes and increased sales to higher rate customers in 2000. This business operation was sold on Aug. 31, 2000 for net proceeds of $857.3 million and a gain on disposition of $262.4 million, subject to resolution of post-closing adjustments and confirmation of the tax treatment of the transaction expected to occur in 2001.

New Zealand

RESULTS : Earnings from discontinued operations in New Zealand decreased by $20.8 million mainly due to the partial year in 2000 and the inclusion of an $18.1 million gain on sale of the gas distribution business in 1999 earnings. The New Zealand business operations were sold on Mar. 31, 2000 for net proceeds of NZ$832.5 million (Cdn$605.0 million) and a gain on disposition of $22.3 million.

Edmonton Composter

RESULTS : The Edmonton Composter commenced commercial operations in August 2000 and contributed after-tax earnings of $0.7 million.

In December 2000, the Board of Directors agreed to dispose of the corporation's interest in the Edmonton Composter as it is not considered a core business. TransAlta is conducting a disposal process and expects to close a transaction in the second quarter of 2001. As a result, a $17.9 million after-tax write-down of the carrying value for the expected loss on disposal has been accrued at Dec. 31, 2000.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TransAlta decreased its cash balance by $21.5 million in 2000, compared with a decrease in cash of $79.9 million in 1999. Significant changes were as follows:

OPERATING ACTIVITIES : Operating activities provided cash of $188.7 million in 2000 compared with $422.0 million in 1999, a decrease of $233.3 million. Higher earnings before non-cash items were offset by increased working capital requirements mainly due to income tax recoveries related to the Alberta D&R business sale, increased trade receivables related to Centralia production and Energy Marketing activity and deferred accounts receivable from the discontinued Alberta D&R business operation to the date of disposition on Aug. 31, 2000. Proceeds from the sale of the Alberta D&R deferral accounts receivable, totalling $164.3 million ($0.97 per share), will be classified as cash from investing activities when received.

Cash flow per share from operating activities decreased from $2.49 to $1.12 as a result of the decline in cash from operating activities discussed above, offset slightly by the decrease in the weighted average common shares outstanding.

INVESTING ACTIVITIES : Investing activities used cash of $205.0 million in 2000 compared with $988.8 million in 1999. In 2000, cash used for additions to capital assets and the acquisition of Centralia was offset by proceeds from the dispositions of the Alberta D&R and New Zealand business operations.

Additions to capital assets used cash of $795.0 million in 2000 (1999 – $644.9 million), with Generation and IPP accounting for $247.8 million and $381.0 million of the investments, respectively. Generation expenditures in 2000 related primarily to the construction of scrubbers at Centralia, the replacement of tubing at the Wabamun plant and major maintenance at other Alberta plants. IPP expenditures in 2000 were mainly comprised of the continued construction of the Poplar Creek plant. Significant IPP expenditures in 1999 included the Fort Nelson, Fort Saskatchewan, Poplar Creek and Lloydminster generation projects, as well as the Edmonton Composter facility.

Acquisitions in 2000 used cash of $880.1 million (1999 – $347.6 million) and included the Centralia and MEGA acquisitions for $868.7 million and $18.6 million (net of cash acquired of $7.2 million), respectively. In 1999, the IPP segment

used cash of $186.7 million to acquire an 85 per cent interest in 250 MW of generating capacity in Western Australia while the New Zealand discontinued operations used cash of $160.6 million mainly to acquire interests in various generating assets.

Cash provided by disposals in 2000 was $1,367.0 million (1999 – $89.9 million). Of this amount, $857.3 million related to the disposal of the D&R business operation in Alberta, of which $723.6 million had been received at Dec. 31, 2000 with the remaining balance, primarily relating to D&R deferral accounts receivable, expected to be received between 2002 and 2004. In addition, the disposal of the New Zealand operations in 2000 provided proceeds of NZ$832.5 million (Cdn$605.0 million). The 1999 proceeds include cash received on the sale of capital assets to TransAlta Cogen and the sale of New Zealand's gas distribution business.

In 2000, restricted investments of $86.8 million matured. In 1999, restricted bank deposits of $224.8 million were offset by restricted investment maturities of $80.3 million as well as the final instalment of $118.4 million of proceeds on the sale of capital assets to the limited partnership in 1998. Cash from deferred charges in 2000 relates primarily to settlement gains on hedges of the New Zealand investment. In 1999, cash used for deferred charges consisted of prepaid licensing fees in Australia and deferred regulatory costs.

FINANCING ACTIVITIES : Financing activities provided cash of $7.3 million in 2000 as compared to $492.5 million in 1999. In 2000, cash used for the $146.8 million redemption of preferred shares of a subsidiary, dividends and distributions to non-controlling interests of $54.9 million, net redemption of common shares of $8.9 million and $168.8 million of dividends paid on common shares were offset by an increase of $381.9 million in short- and long-term debt net of long-term debt maturities. In 1999, short-term and long-term debt issuances net of long-term debt maturities provided cash of $453.7 million, in addition to the issuance of $294.8 million of preferred securities which were used to finance the significant investments in non-regulated assets as well as $169.5 million in common share dividends.

Excluding commercial paper and bankers' acceptances issuances, the corporation concluded no new issues during 2000. In 2000, TransAlta repaid or redeemed the following debt:

	Maturity	Rate	Amount
Debentures	2000	11.38%	$ 100.0
Debentures	2000	11.35%	100.0
			$ 200.0

Under the terms of the Normal Course Issuer Bid, the corporation purchased for cancellation 1.6 million common shares in 2000 at an average price of $15.25.

TransAlta's 2000 dividends per common share were $1.00.

CONSOLIDATED BALANCE SHEETS

The following chart outlines significant changes in the consolidated balance sheets between Dec. 31, 2000 and Dec. 31, 1999:

Summary of Major Changes (in millions of dollars)	Increase/ (Decrease)	Explanation
Cash	$ (21.5)	Refer to Consolidated Statement of Cash Flows
Restricted investments	$ (88.3)	Maturity of $80.3 million on Jan. 4, 2000 and the release of funds held in escrow related to the 1999 disposition of the discontinued Argentina operations
Accounts receivable and other current assets	$ 1,297.3	Increased back-to-back trading activity, Centralia and MEGA acquisitions as well as current taxes receivable related to the tax benefit arising from the disposition of Alberta D&R operation
Investments	$ (19.7)	Impact of foreign exchange on deposits denominated in New Zealand dollars partially offset by equity investment in Vision Quest Windelectric Inc.
Long-term receivables	$ 205.7	Reclassification of $213.9 million deferral accounts receivable from Generation and Alberta D&R from current to long-term as a result of Government of Alberta changes to the Electric Utilities Act (Alberta), delaying receipt of these funds until 2002
Capital assets	$ 246.1	Acquisition of Centralia plant and mine and construction of IPP projects partially offset by the disposition of New Zealand and Alberta D&R business operations
Short-term debt	$ 257.9	Increase to refinance maturing long-term debt obligations of TransAlta Utilities
Accounts payable and other current liabilities	$ 994.4	Increased back-to-back arbitrage trading activity, Centralia and MEGA acquisitions, offset by the disposition of New Zealand and Alberta D&R business operations
Long-term debt (including current portion)	$ 24.0	Reflects debt incurred to finance acquisition of Centralia plant and mine and refinancing of TransAlta Utilities' long-term debt offset by disposition of debt associated with New Zealand and repayments with proceeds from D&R disposition
Deferred credits and other long-term liabilities	$ 186.4	Reclamation liability acquired with the purchase of Centralia plant and mine
Future income tax liabilities	$ 270.0	Recognition of future income tax liabilities related to Alberta Generation upon the discontinuance of regulatory accounting
Non-controlling interests	$ (270.7)	Disposition of New Zealand operations and redemption of preferred shares of a subsidiary
Shareholders' equity	$ 121.8	Mainly due to net earnings and net increases in cumulative translation adjustment partially offset by dividends and the net buyback of common shares

LIQUIDITY AND CAPITAL RESOURCES

TransAlta Corporation raises substantially all external capital to be invested in the various business units and affiliated or subsidiary companies as required. This strategy allows TransAlta to gain access to sufficient capital at the lowest overall cost to finance its growth strategy and to provide corporate flexibility. TransAlta Corporation is an issuer in the Canadian capital markets and at Dec. 31, 2000 had in place the following:

- $1,500 million Medium-Term Note program with $590 million issued at Dec. 31, 2000;
- $600 million commercial paper program; and,
- $1,200 million syndicated bank credit facility.

The Medium-Term Note program of TransAlta Utilities of $500 million is not expected to be renewed in 2001. It is the corporation's expectation that substantially all future financing requirements of TransAlta Utilities, including the repayment of TransAlta Utilities' debt and preferred shares, will be met through raising capital at the TransAlta Corporation level.

CASH REQUIREMENTS

Future cash requirements include additions to capital assets, acquisitions, and refinancing of short-term debt, maturing senior debt and TransAlta Utilities' preferred shares. In 2001, cash will be provided from operations as well as new debt, preferred securities, sale of non-core assets or equity issuances. The following table provides an estimate of 2001 expenditures, refinancing requirements and the related sources of funding:

Capital expenditures	
Generation	$ 368.0
Independent Power Projects	428.0
Transmission	37.0
Corporate and other	29.0
Uncommitted	353.0
Refinancing requirements	
Short-term debt	400.0
Senior debt	75.0
Total cash requirements	**$ 1,690.0**
Cash from operations, net of dividends	$ 409.0
Issue of senior debt, preferred securities, sale of non-core assets, or equity issuances	1,281.0
Total cash sources	**$ 1,690.0**

Cash requirements arise primarily from capital maintenance requirements of the Generation and Transmission businesses, growth in Independent Power Projects, acquisitions, refinancing long-term debt maturities and general working capital requirements. Historically, acquisitions and new investments have initially been financed with short-term debt and subsequently refinanced with an appropriate mix of common equity, cash flow from operations, long-term debt and preferred securities, depending on prevailing market conditions.

Generation's expenditures are necessary to maintain and improve the output from the existing facilities and to meet certain emission reduction commitments. Transmission's expenditures are necessary to maintain the existing facilities. The IPP expenditures include approximately $418.4 million on plants currently under construction, or expected to begin construction in 2001, with the balance relating to as yet unidentified opportunities. Other capital expenditures are primarily related to the maintenance of existing plant assets.

In addition, it is expected that approximately $400 million of short-term debt outstanding at Dec. 31, 2000 will be refinanced as long-term debt during 2001. Short-term liquidity is provided through cash flow from operations and the use of the $600 million commercial paper program and $1,200 million syndicated credit facility. At Dec. 31, 2000 there was $597.0 million

of commercial paper on issue, $199.0 million of bankers' acceptances and $189.0 million in letters of credit utilized from the $1,200.0 million credit facility, resulting in approximately $815.0 million of short-term funds available.

On Jan. 16, 2001, the corporation issued $250.0 million of medium-term notes at an interest rate of 6.05 per cent repayable in five years. The proceeds were used to repay short-term debt. In addition, subsequent to Dec. 31, 2000, the corporation arranged approximately $300.0 million of uncommitted short-term credit to provide additional support for TransAlta's trading activities.

Long-term funding is provided through the maintenance of high-quality credit ratings and a carefully managed capital structure, which together create a strong balance sheet and ready access to capital markets at competitive rates. The corporation's objective is to manage the maturities of the various securities on issue so that no more than 15 per cent of the total outstanding securities mature in any one year. The corporation's target is to maintain its credit ratings at current levels and to achieve a target capital structure of 50 per cent debt to total capitalization. The corporation's capital structure consisted of the following components at Dec. 31, 2000 and 1999:

CAPITAL STRUCTURE	2000	2000	1999	1999
Debt, net of cash and interest-earning investments	**$ 2,421.9**	**48%**	$ 2,003.8	42%
Preferred securities and preferred shares of a subsidiary	**413.6**	**8%**	555.4	12%
Other non-controlling interests	**253.4**	**5%**	377.4	8%
Common shareholders' equity	**1,957.4**	**39%**	1,835.6	38%
	$ 5,046.3	**100%**	$ 4,772.2	100%

The credit ratings for the corporation's various securities and TransAlta Power, L.P.'s units as determined by Standard & Poor's (S&P), the Canadian Bond Rating Service (CBRS), the Dominion Bond Rating Service (DBRS) and Moody's rating services are as follows:

CREDIT RATINGS	S&P	CBRS**	DBRS	Moody's
TransAlta Corporation				
Issuer rating	A-	–	–	A3
Commercial paper	–	A-1	R1 (low)	
Senior unsecured debentures	A-	A	A	
Preferred securities		BBB+	Pfd-2 y	
TransAlta Utilities Corporation				
Senior unsecured debentures		A+	A (high)	
Preferred shares		P-2 (H)	Pfd-2 (high)	
TransAlta Power, L.P.*		S-1	–	

** non-controlling partner in TransAlta's subsidiary, TransAlta Cogeneration L.P.*
*** CBRS merged with S&P. CBRS rating holds until the process to harmonize the CBRS ratings with S&P is completed.*

RISK MANAGEMENT

TransAlta utilizes a multi-level risk management oversight structure to manage the corporation's various risk exposures.

The Audit and Environment Committee (A&EC) of the Board of Directors oversees corporate-wide risk management through review of TransAlta's overall business risks. The Chief Financial Officer reports to the A&EC and is responsible for ensuring

compliance with TransAlta's financial and commodity risk exposure management policies. These policies include limits on exposures (commodity prices, currency, credit and interest rates), reporting practices and other procedures necessary for the corporation to manage and control its financial and commodity exposures. The Exposure Management Committee (EMC) is chaired by the Chief Financial Officer and is comprised of Business Unit Executive Vice-Presidents, the Treasurer and the directors of Internal Audit and Energy Marketing. The EMC is responsible for the review, monitoring and reporting on compliance of these financial and commodity risk exposure management policies. This reporting is independently validated by Treasury and Energy Marketing back offices, as well as Internal Audit.

COMMODITY PRICE RISK : The corporation has exposure to movements in selected commodity prices, including electricity and natural gas, in both its electricity generation and proprietary trading businesses. A significant portion of the coal used in electricity generation is from coal reserves owned by TransAlta, thereby limiting the corporation's exposure to fluctuations in the market price of coal.

Electricity generation is exposed to price fluctuations of electricity sold to the market and natural gas used in generating electricity. The corporation has entered into a variety of short- and long-term contracts to limit its exposure to short-term price movements and maximize overall revenues. In the event of an unplanned plant outage or other similar event, however, the corporation is exposed to electricity prices on purchases of electricity from the market to fulfill its supply obligations under these short- and long-term contracts. The corporation actively mitigates this exposure through continued and proper maintenance of its electricity generating plants, *force majeure* clauses negotiated in the contracts, trading activities and insurance.

The corporation's proprietary trading of gas and electricity is strictly controlled and limited and is managed through the use of Value at Risk methodologies.

CURRENCY RATE EXPOSURE : The corporation has exposure to various currencies as a result of its investments and operations in foreign jurisdictions and the acquisition of equipment and services from foreign suppliers. The corporation has exposures primarily to the U.S., Australian and Swiss currencies. These exposures are managed through the use of a variety of hedging instruments including cross-currency swaps and forward sales contracts. At Dec. 31, 2000, the corporation has hedged approximately 100 per cent of its currency rate exposures on a pre-tax basis.

Translation gains and losses related to the carrying value of the corporation's foreign operations are deferred and included in the cumulative translation account in shareholders' equity. At Dec. 31, 2000, the balance in this account was a loss of $19.8 million (including a $12.1 million tax effect on hedging gains) compared to a $39.4 million loss at the end of 1999, of which $36.8 million related to the New Zealand operations and was realized upon its disposition in March 2000.

CREDIT RISK : The corporation actively manages its exposure to credit risk by assessment of the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts. The corporation sets strict credit limits for each counterparty and halts trading activities with the counterparty if the limits are exceeded. TransAlta is not exposed to credit risk for Alberta Generation PPAs under the terms of these contracts.

INTEREST RATE EXPOSURE : The corporation has exposure to movements in interest rates and manages this exposure by maintaining a limit on the amount of debt subject to floating interest rates. At Dec. 31, 2000, approximately

36 per cent of the corporation's total debt portfolio was subject to movements in floating interest rates through a combination of floating rate debt and interest rate swaps. This was reduced to 26 per cent as a result of the issue of $250 million of medium-term notes on Jan. 16, 2001.

CLIMATE CHANGE RISK MANAGEMENT: TransAlta's climate change strategy addresses the potential competitive risks to its fossil-fuelled generation plants from future changes in public policy, which could include changes to environmental controls, regulatory regimes, taxes or charges. Contractual provisions in Generation's Alberta PPAs substantially cover TransAlta for risks related to potential changes in law.

TransAlta's strategy addresses the following key areas: reducing net emissions; participating in provincial, federal and international policy development; contributing to research and development; purchasing renewable energy; and testing market-based approaches such as the trading of emission reduction credits. TransAlta exceeded its voluntary goal to return net greenhouse gas emissions to 1990 levels in 2000. In 2000, as part of its climate change strategy, TransAlta invested $8.5 million in Vision Quest Windelectric Inc., a company that utilizes wind-based technology to generate electricity.

In addition, TransAlta is implementing an enhanced environmental management system designed to meet the ISO 14001 international standard. All TransAlta facilities undergo compliance and management system integrity audits on a cycle determined by facility performance, which occurs on average once every three years.

EMPLOYEE FUTURE BENEFITS

TransAlta's employee defined benefits plans had a net accounting surplus of $66.0 million at Dec. 31, 2000. TransAlta does not expect to make any contributions to its plans in the near term, and will use the surplus in the registered defined benefit plan to pay benefits under both the registered defined contribution and the supplemental defined benefit plans. Using the assumptions outlined in *Note 19* to the consolidated financial statements, management estimates that the surplus will be consumed in approximately nine years.

EMPLOYEE SHARE OWNERSHIP

TransAlta employs a variety of stock-based compensation plans to align employee and corporate objectives. In 1999, the corporation expanded enrolment in its common share option program to include all domestic employees. At Dec. 31, 2000, 1.9 million options to purchase the corporation's common stock were outstanding with 0.6 million exercisable at the reporting date. Under the terms of the Performance Share Ownership Plan, certain employees receive awards which, after three years, make them eligible to receive a set number of common shares or cash equivalent plus dividends thereon based upon the performance of the corporation relative to a selected group of publicly traded companies. The first PSOP maturity occurred in 2000 with 120,101 common shares issued at $14.15 per share. At Dec. 31, 2000, there were 1.0 million PSOP awards outstanding. Under the terms of the Employee Share Purchase Plan, the corporation will extend an interest-free loan to employees (of up to 30 per cent of the employee's base salary) for the purchase of common shares of the corporation from the open market. The loan is repaid over a three-year period by the employee through payroll deduction unless the shares are sold, at which point the loan becomes due on demand. At Dec. 31, 2000, 0.2 million shares had been purchased by employees under this program.

FINANCIAL
REVIEW

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This is how we've done.

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and with all information available up to Feb. 1, 2001. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The audit committee of the board of directors is comprised of independent directors. The audit committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The audit committee reports its findings to the board of directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The audit committee also recommends, for review by the board of directors and approval of shareholders, the appointment of the external auditors. The internal and external auditors have full and free access to the audit committee.

Stephen G. Snyder
President & Chief Executive Officer
Feb. 1, 2001

Ian A. Bourne
Executive Vice-President &
Chief Financial Officer

TO THE SHAREHOLDERS OF TRANSALTA CORPORATION: We have audited the consolidated balance sheets of TransAlta Corporation as at Dec. 31, 2000 and 1999 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at Dec. 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Calgary, Canada
Feb. 1, 2001

CONSOLIDATED STATEMENTS OF EARNINGS & RETAINED EARNINGS

Years ended December 31 (in millions except earnings per common share)	2000	1999
Revenues	**$ 1,587.0**	$ 1,029.4
Operating expenses		
Fuel and purchased power	**479.1**	205.4
Operations, maintenance and administration	**359.6**	262.7
Depreciation and amortization	**252.0**	210.3
Taxes, other than income taxes	**36.9**	35.7
	1,127.6	714.1
Operating income	**459.4**	315.3
Other income (expense)	**(1.0)**	2.4
Net interest charges *(Note 11)*	**(100.8)**	(79.1)
Earnings from continuing operations before regulatory decisions, income taxes and non-controlling interests	**357.6**	238.6
Prior period regulatory decisions *(Note 17)*	**44.1**	–
Earnings from continuing operations before income taxes and non-controlling interests	**401.7**	238.6
Income taxes *(Note 18)*	**169.4**	105.5
Non-controlling interests *(Note 13)*	**41.6**	30.9
Earnings from continuing operations	**190.7**	102.2
Earnings from discontinued operations *(Notes 3 and 17)*	**44.8**	53.4
Net gain on disposal of discontinued operations *(Note 3)*	**266.8**	19.7
Net earnings before extraordinary item	**502.3**	175.3
Extraordinary item *(Note 4)*	**(209.7)**	–
Net earnings	**292.6**	175.3
Preferred securities distributions, net of tax *(Note 14)*	**12.8**	5.2
Net earnings applicable to common shareholders	**$ 279.8**	$ 170.1
Common share dividends	**(168.7)**	(169.5)
Adjustment arising from normal course issuer bid *(Note 15)*	**(7.5)**	–
Retained earnings		
Opening balance *(Note 1)*	**723.3**	722.7
Closing balance	**$ 826.9**	$ 723.3
Weighted average common shares outstanding in the period	**168.8**	169.5
Basic earnings per share		
Continuing operations	**$ 1.05**	$ 0.57
Earnings from discontinued operations *(Note 3)*	**0.27**	0.32
Net earnings from operations	**1.32**	0.89
Net gain on disposal of discontinued operations *(Note 3)*	**1.58**	0.11
Extraordinary item *(Note 4)*	**(1.24)**	–
Net earnings	**$ 1.66**	$ 1.00
Fully diluted earnings per share *(Note 14)*		
Continuing operations	**$ 1.03**	$ 0.55
Net earnings from operations	**$ 1.29**	$ 0.87
Net earnings	**$ 1.62**	$ 0.97

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 31 (in millions)	2000	1999
Assets		
Current assets		
Cash	**$ 53.8**	$ 75.3
Restricted investment *(Note 6)*	**–**	88.3
Accounts receivable *(Note 20)*	**1,473.7**	365.7
Future income tax assets *(Note 18)*	**30.3**	1.0
Income taxes receivable *(Note 18)*	**153.9**	29.0
Materials and supplies at average cost	**91.3**	56.2
	1,803.0	615.5
Investments *(Note 6)*	**228.0**	247.7
Long-term receivables *(Notes 7 and 20)*	**232.9**	27.2
Capital assets *(Notes 8 and 11)*		
Cost	**7,762.1**	8,026.3
Accumulated depreciation	**(2,485.0)**	(2,995.3)
	5,277.1	5,031.0
Future income tax assets *(Note 18)*	**9.1**	6.1
Other assets *(Note 9)*	**77.0**	110.9
Total assets	**$ 7,627.1**	$ 6,038.4
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt *(Note 10)*	**$ 472.7**	$ 214.8
Accounts payable and accrued liabilities	**1,437.9**	478.0
Income taxes payable *(Note 18)*	**41.4**	3.7
Dividends payable	**44.8**	48.0
Current portion of long-term debt *(Note 11)*	**79.6**	211.8
	2,076.4	956.3
Long-term debt *(Note 11)*	**2,121.8**	1,965.6
Deferred credits and other long-term liabilities *(Note 12)*	**455.1**	268.7
Future income tax liabilities *(Note 18)*	**349.4**	79.4
Non-controlling interests *(Note 13)*		
Preferred shares of a subsidiary	**121.6**	268.3
Other	**253.4**	377.4
	375.0	645.7
Preferred securities *(Note 14)*	**292.0**	287.1
Common shareholders' equity		
Common shares *(Notes 15 and 16)*	**1,150.3**	1,145.9
Contributed surplus *(Note 15)*	**–**	5.8
Retained earnings	**826.9**	723.3
Cumulative translation adjustment	**(19.8)**	(39.4)
	1,957.4	1,835.6
Total liabilities and shareholders' equity	**$ 7,627.1**	$ 6,038.4

Contingencies and commitments *(Notes 3, 11, 20, 23 and 24)*

See accompanying notes.

On behalf of the board:

John T. Ferguson, Director *J. Wallace Madill, Director*

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (in millions except cash flow per share)	2000	1999
Operating activities		
Net earnings	$ 292.6	$ 175.3
Depreciation and amortization	321.7	325.5
Non-controlling interests	44.6	52.1
Gains on sale of assets *(Note 3)*	(284.9)	(36.0)
Write-down of discontinued Edmonton Composter *(Note 3)*	17.9	–
Recovery of discontinued operation in Argentina *(Note 3)*	–	(19.7)
Future income taxes *(Note 18)*	34.1	7.3
Extraordinary item *(Note 4)*	209.7	–
Other non-cash items	5.2	(27.7)
	640.9	476.8
Change in non-cash operating working capital balances [1]	(452.2)	(54.8)
Cash flow from operating activities	188.7	422.0
Investing activities		
Additions to capital assets	(795.0)	(644.9)
Acquisitions *(Note 5)*	(880.1)	(347.6)
Proceeds on sale of capital assets to limited partnership *(Note 12)*	–	118.4
Disposals *(Note 3)*	1,367.0	89.9
Restricted investments	86.8	(153.4)
Long-term receivables	12.1	9.1
Long-term investments *(Note 6)*	(9.5)	16.3
Deferred charges and other	13.7	(76.6)
Cash flow to investing activities	(205.0)	(988.8)
Financing activities		
Net increase in short-term debt	255.7	121.5
Issuance of long-term debt	330.8	835.4
Repayment of long-term debt	(204.6)	(503.2)
Redemption of preferred shares of a subsidiary *(Note 13)*	(146.8)	–
Dividends to subsidiary's non-controlling preferred shareholders	(14.8)	(21.1)
Dividends to subsidiary's non-controlling common shareholders	(7.0)	(33.0)
Distributions to subsidiary's non-controlling limited partner	(21.0)	(22.7)
Proceeds on issuance of preferred securities, net of after-tax issue costs	–	294.8
Distributions on preferred securities, net of taxes	(12.1)	(5.2)
Issuance of common shares	15.0	10.8
Redemption of common shares	(23.9)	(18.1)
Dividends on common shares	(168.8)	(169.5)
Other	4.8	2.8
Cash flow from financing activities	7.3	492.5
Cash flow to operating, investing and financing activities	(9.0)	(74.3)
Effect of translation on foreign currency cash	(12.5)	(5.6)
Decrease in cash	(21.5)	(79.9)
Cash at beginning of year	75.3	155.2
Cash at end of year	53.8	75.3
Cash flow per share from operating activities [1]	$ 1.12	$ 2.49
Interest paid	$ 173.2	$ 166.2
Income taxes paid	$ 140.3	$ 198.7

See accompanying notes.

1: The change in non-cash operating working capital balances and cash flow per share from operating activities for the year ended Dec. 31, 2000 includes the impact of increased deferral accounts receivable for the discontinued Distribution and Retail business operation in Alberta until the date of disposal on Aug. 31, 2000. The related proceeds from the disposal of these deferral accounts receivable, totalling $164.3 million ($0.97 per share) are classified as cash provided by investing activities, of which $24.2 million was received in 2000 (Note 3).

Dec. 31, 2000 and 1999
(Tabular dollar amounts in millions, except as otherwise noted)

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A: Consolidation and Investments

The consolidated financial statements include the accounts of TransAlta Corporation (the corporation), all subsidiaries and the proportionate share of the accounts of jointly controlled corporations. TransAlta Utilities Corporation (TransAlta Utilities) and TransAlta Energy Corporation (TransAlta Energy) are the principal wholly owned operating subsidiaries. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

TransAlta Utilities owns and operates electric generation and transmission facilities in the province of Alberta. TransAlta Utilities also owned and operated a distribution and retail operation in Alberta (Alberta D&R operation) until the operation was disposed of on Aug. 31, 2000 *(Note 3)*. TransAlta Energy is engaged in electric and thermal energy supply, energy services and energy marketing in Canada and internationally. TransAlta Energy also owned and operated an electricity generation and retail operation in New Zealand until the operations were disposed of on Mar. 31, 2000 *(Note 3)*.

Investments in entities that are not proportionately consolidated but over which the corporation exercises significant influence are accounted for using the equity method. Other investments are accounted for using the cost method.

B: Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates *(Notes 20 and 24)*.

C: Regulation

TransAlta Utilities is regulated by the Alberta Energy and Utilities Board (the EUB), pursuant to the *Hydro and Electric Energy Act (Alberta)*; pursuant to Part 2 of the *Public Utilities Board Act (Alberta)*; pursuant to the *Electric Utilities Act (Alberta)*; and is subject to the *Provincial Water Power Regulations (Alberta)*. These acts and regulations cover such matters as tariffs, rates, construction, operations, financing and accounting. The corporation's other operations are also subject to the regulations of the jurisdiction of operations.

TransAlta Utilities accounts for transactions in accordance with applicable regulation (regulatory accounting) when three criteria are met: the rates for services or products provided to customers are established by or subject to approval by a regulatory body; the regulated rates are designed to recover the cost of providing the services or products; and it is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers. Under regulatory accounting, the timing of TransAlta Utilities' recognition of certain assets, liabilities, revenues and expenses may differ from the timing otherwise expected using generally accepted accounting principles for non-regulated businesses.

When one of the above three criteria no longer applies to a TransAlta Utilities operation, regulatory accounting ceases and the application of generally accepted accounting principles for non-regulated businesses commences for that operation at the date the criteria is no longer met. Upon discontinuation of regulatory accounting, the effects of any action of regulators that had been recognized as assets and liabilities that would not have been recognized as assets or liabilities under generally accepted accounting principles are eliminated and future income tax liabilities or assets not recorded under regulatory accounting are recognized. The net effect of these adjustments is included in the period in which the discontinuation of regulated accounting occurs and is classified as an extraordinary item.

D: Revenue Recognition

Except for revenues earned from regulated operations, revenues are recognized on the accrual basis and include an estimate of unbilled revenue. Revenues are reported on a gross basis unless the corporation is acting in the capacity of an agent or a broker in which case they are recognized net of purchases. Revenues for the Energy Marketing segment are presented net of costs of acquiring the related commodities.

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies as set by the regulator.

Rate adjustments related to prior years are presented as unusual items.

E: Discontinued Operations

The results of discontinued operations are presented on a one-line basis in the consolidated statements of earnings. Interest expense, direct corporate overheads and income taxes are allocated to discontinued operations. General corporate overheads are not allocated to discontinued operations.

F: Capital Assets and Future Site Restoration Costs

Capital assets are carried at a cost which includes direct internal labour and allocated overheads. Regulated operations capitalize an allowance for funds used during construction (AFUDC) at the cost of capital including the cost of equity related to property under construction. AFUDC is a non-cash income item that will be charged and recovered in rates to customers over the service life of the assets, commencing with their inclusion in the rate base.

Interest is capitalized for non-regulated plants under construction, which is included in the capital cost of the related property. Depreciation on non-regulated gas generation plants is provided on a unit-of-production basis based upon estimated production over the asset's useful life. No provision for future site restoration costs of gas generation plants is recorded as management estimates the costs of restoration will be completely offset by the salvage value of the related plants. Depreciation on non-regulated coal generation plants is provided for on a straight-line basis over the useful life of the asset. Future site restoration costs for non-regulated coal plants are provided for in depreciation and amortization expense on a straight-line basis over the life of the asset. Non-regulated transmission, distribution and retail systems and customer base intangibles are depreciated using the straight-line method over the useful life of the asset.

Interest expense is presented net of AFUDC. Regulated operations provide for depreciation on a straight-line basis using various rates as approved by the EUB, based on depreciation studies prepared by the corporation. Changes to depreciation rates requested by the EUB are accounted for on a prospective basis. Depreciation rates reflect estimated service

lives less salvage values. Future site restoration costs are provided for in depreciation and amortization expense using amortization rates reflecting estimated service lives. The corporation does not provide for the removal costs associated with its hydroelectric generating facilities as the costs are not reasonably estimable because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be required for the foreseeable future and therefore, no amounts have been provided for site restoration costs of these facilities. Estimated costs to reclaim mining properties are amortized primarily on a unit-of-production basis. Customer contributions to the corporation for new service connections are recorded as a reduction to the cost of property.

G: Deferred Charges and Issue Costs

Financing costs for the issuance of long-term debt, preferred shares and preferred securities are amortized to earnings on a straight-line basis over the term of the related issue.

Costs incurred by the corporation to develop potential capital assets or investments, inclusive of internal labour, are included in operating expenses until construction of a plant commences or acquisition of an investment has been completed, at which time the costs are included in capital assets or investments.

H: Income Taxes

TransAlta's rate-regulated operations use the income tax accounting policies as prescribed by the EUB. Rate-regulated enterprises need not recognize future income taxes to the extent that future income taxes are expected to be included in the rates charged to and recovered from future customers.

Effective Jan. 1, 2000, the corporation adopted, on a retroactive basis, the recent Canadian Institute of Chartered Accountants' recommendations in respect of accounting for income taxes using the liability method for its non-regulated operations. Under the asset and liability method, income taxes are recognized for the differences between financial statement carrying values and their respective income tax basis of assets and liabilities (temporary differences), and for the carryforward of unused tax losses and income tax reductions. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change is substantially enacted. Future income tax assets are evaluated and if realization is not considered 'more likely than not', a valuation allowance is provided.

Previously, the corporation followed the deferral method of accounting for income taxes for its non-rate-regulated operations, which related the provision for income taxes to the accounting income for the period.

The change in accounting policy decreased 2000 earnings by $2.6 million ($0.02 per common share) and reduced net earnings for the year ended Dec. 31, 1999 by $16.3 million ($0.10 per common share). At Dec. 31, 2000, as a result of this change in accounting policy, working capital increased by $30.3 million (1999 – $0.8 million), future income tax assets increased by $9.1 million (1999 – $6.1 million), capital assets increased by $15.6 million (1999 – $nil), future income tax liabilities increased by $57.6 million (1999 – $6.9 million) and opening retained earnings increased by $nil (1999 – $16.3 million).

I: Employee Future Benefits

The corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other post-employment and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The discount rate used to calculate the interest cost on the accrued benefit obligation is the long-term market rate at the balance sheet date. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment (EARSL). The excess of the net actuarial gain (loss) over 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. When the restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement. Transition obligations and assets arising from the prospective adoption of new accounting standards are amortized over EARSL.

J: Foreign Currency Translation

The corporation's self-sustaining foreign operations are translated using the current rate method. Translation gains and losses are deferred and included in the cumulative translation adjustment account in shareholders' equity.

Transactions denominated in foreign currencies are translated at the exchange rate on the transaction date. Foreign currency denominated monetary assets and liabilities are translated at exchange rates in effect on the balance sheet date. The resulting exchange gains and losses on these items are included in net earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining life of the debt on a straight-line basis.

K: Derivatives and Financial Instruments

The corporation utilizes derivative financial instruments and derivative commodity instruments (collectively, derivatives) and other financial instruments to manage its exposure to changes in foreign currency exchange rates, interest rates and energy prices. Gains and losses relating to derivatives that are hedges are deferred and recognized in the same period and financial statement category as the related items hedged.

To be accounted for as a hedge, a derivative must be designated by management as a hedge and be effective. Hedge effectiveness for cash flow hedges is achieved if the derivative's cash flows substantially offset the cash flows of the hedged item and the timing of the cash flows is similar. Hedge effectiveness for fair value hedges is achieved if changes in the fair value of the derivative substantially offsets changes in the fair value of the item hedged. If a derivative that has been accorded hedge accounting is settled early, the termination gain or loss is deferred and recognized when the gain or loss on the item hedged is recognized. Premiums paid or received with respect to hedging derivatives are deferred and amortized to earnings over the term of the hedge.

Derivatives used in trading activities are carried at fair value. Realized and unrealized changes in fair value are recognized in earnings in the period in which the changes occur.

The estimated fair value of a derivative generally reflects the estimated amount that the corporation would receive or pay to terminate the contract at the balance sheet date. The estimated fair value of long-term debt is based on quoted market prices where available, or where not available, with reference to market prices for similar issues. The carrying amounts of other balance sheet financial assets and financial liabilities approximate their fair values.

L: Stock-Based Compensation Plans

The corporation has three types of stock-based compensation plans comprised of two stock-option-based plans and a Performance Share Ownership Plan (PSOP), which are described in *Note 16*. For stock-option-based plans, no compensation expense is recognized when stock options or, upon exercise, stock is issued to employees. Stock grants under the PSOP are accrued in corporate operating, maintenance and administration expense as earned to the balance sheet date, based upon the percentile ranking of the total shareholder return of the corporation's common shares in comparison to the total shareholder returns of a selected group of publicly traded companies. If stock options or stock are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option or stock cancelled is charged to retained earnings.

M: Earnings Per Share (EPS)

Basic earnings per share is calculated based on net earnings applicable to common shareholders using the weighted average number of common shares outstanding during the year. Earnings per share from continuing operations is calculated after preferred securities distributions. Fully diluted net earnings per share is calculated assuming: i) exercise of options granted under the share option plan, at the later of the beginning of the year or date of issuance and the funds received are invested at prime interest rates (net of tax); and, ii) full payout under the PSOP, net of applicable income taxes. Supplemental fully diluted earnings per share information disclosed in *Note 14* is calculated assuming settlement of the equity component of the preferred securities by issuance of the corporation's common shares.

2: SEGMENT DISCLOSURES

A: Description of Reportable Segments

The corporation has four reportable segments: Generation, Independent Power Projects (IPP), Transmission, and Energy Marketing. The corporation's reportable segments are strategic business units that offer different products and services both domestically and internationally. They are managed separately due to different technology and marketing strategies.

The Generation segment operates in Alberta and Washington state. In 2000, the Alberta generating plants were regulated by the EUB and the transactions were facilitated through third-party intermediaries, namely the Power Pool of Alberta (Power Pool) and ESBI Alberta Ltd. and the independent transmission administrator (TA). The electrical production of these plants was sold to the Power Pool. Legislation provided for the sale of all power for use in Alberta to the Power Pool for resale at a bid price which matched demand with supply. Prices were determined through regulation and were based on a rate of return on assets and the recovery of costs. Revenues were net of payments to small power producers (SPP). The Alberta generation operation also earned ancillary revenue for providing system stability services to the TA and paid ancillary access charges to the TA. Commencing Jan. 1, 2001, Alberta generating plants are no longer regulated and will earn revenues based upon long-term power purchase arrangements (PPAs). In addition, upon the commencement of the PPAs, TransAlta's

obligations to the SPPs cease. In Washington state, revenue earned from the Centralia plant and mining operation acquired in May 2000 *(Note 5)* is not subject to rate regulation. The plant sells its production primarily to the Pacific Northwest market. Expenses include Energy Marketing's intersegment charge for energy trading and financial risk management services in the amount of $5.7 million (1999 – $2.5 million).

The IPP segment builds, owns and operates independent power projects in Canada, the U.S., Australia and Mexico for the sale of electric and thermal energy. The majority of electricity production is sold under long-term commercial contracts with the remainder sold in spot markets. Thermal energy is primarily sold under long-term contracts. Expenses include Energy Marketing's intersegment charges for energy trading and financial risk management services in the amount of $1.4 million (1999 – $1.4 million). The amount of engineering, procurement and construction service (EPC) charges from Transmission capitalized to capital assets under construction was $3.6 million (1999 – $24.7 million).

The Transmission segment operates mainly in Alberta and is also primarily regulated by the EUB. The Transmission segment and the other utilities in Alberta provide transmission services to the TA, which then charges each distributor of electricity (including the corporation's discontinued Alberta D&R operation) a transmission tariff based on volume. Service charges for the transmission facilities and the tariffs charged by the TA are determined through regulation based on a rate of return on assets and the recovery of costs. In addition, the Transmission segment is engaged in providing non-regulated EPC services to the IPP segment and third parties. Expenses are net of intersegment EPC charges to IPP in the amount of $3.6 million (1999 – $24.7 million).

The Energy Marketing segment derives revenue from the wholesale trading of electricity and other energy-related commodities and derivatives. Revenues from wholesale trading of electricity and other commodities and derivatives are presented net of the cost of acquiring the commodity to meet trading obligations in the consolidated statement of earnings but are shown separately in reported segment revenues. Expenses are net of intersegment charges to the Generation and IPP segments for the provision of energy trading and financial risk management services in the amount of $9.1 million (1999 – $3.9 million), and to the discontinued D&R operation in Alberta in the amount of $1.0 million (1999 – $1.6 million).

The accounting policies of the segments are the same as those described in *Note 1*. The corporation evaluates performance based on earnings before interest, income taxes and non-controlling interests (EBIT). Intersegment transactions are accounted for on a cost recovery basis which approximates market rates. Cash, restricted investments and investments (exclusive of the investment in the Australian gas transmission pipeline) are treated as corporate assets for segmented reporting purposes.

B: Reported Segment Profit or Loss and Segment Assets

I: Earnings information

Year Ended Dec. 31, 2000	Generation	IPP	Transmission	Energy Marketing	Total
Revenues	**$ 964.6**	**$ 397.0**	**$ 178.2**	**$ 1,276.9**	**$ 2,816.7**
SPP payments and trading purchases	**(27.2)**	**–**	**–**	**(1,202.5)**	**(1,229.7)**
Net segment revenues	**937.4**	**397.0**	**178.2**	**74.4**	**1,587.0**
Fuel and purchased power	**296.9**	**182.2**	**–**	**–**	**479.1**
Operations, maintenance and administration	**151.5**	**99.7**	**20.7**	**13.4**	**285.3**
Depreciation and amortization	**126.7**	**63.7**	**46.4**	**1.0**	**237.8**
Taxes, other than income taxes	**22.2**	**1.7**	**13.0**	**–**	**36.9**
Prior period regulatory decisions	**(44.1)**	**–**	**–**	**–**	**(44.1)**
EBIT before corporate allocations	**384.2**	**49.7**	**98.1**	**60.0**	**592.0**
Corporate allocations	**51.1**	**18.2**	**12.9**	**6.3**	**88.5**
EBIT for reportable segments	**$ 333.1**	**$ 31.5**	**$ 85.2**	**$ 53.7**	**503.5**
Other expense					**(1.0)**
Net interest charges					**(100.8)**
Earnings from continuing operations before income taxes and non-controlling interests					**$ 401.7**

Year Ended Dec. 31, 1999	Generation	IPP	Transmission	Energy Marketing	Total
Revenues	$ 583.2	$ 272.5	$ 189.6	$ 283.0	$ 1,328.3
SPP payments and trading purchases	(26.9)	–	–	(272.0)	(298.9)
Net segment revenues	556.3	272.5	189.6	11.0	1,029.4
Fuel and purchased power	110.9	94.5	–	–	205.4
Operations, maintenance and administration	99.5	81.7	20.6	8.1	209.9
Depreciation and amortization	101.7	45.9	45.9	1.3	194.8
Taxes, other than income taxes	20.5	1.4	13.8	–	35.7
Other income	–	(1.7)	(0.7)	–	(2.4)
EBIT before corporate allocations	223.7	50.7	110.0	1.6	386.0
Corporate allocations	33.5	10.9	20.5	3.4	68.3
EBIT for reportable segments	$ 190.2	$ 39.8	$ 89.5	$ (1.8)	317.7
Net interest charges					(79.1)
Earnings from continuing operations before income taxes and non-controlling interests					$ 238.6

II: Selected cash flow information

Year Ended Dec. 31, 2000	Generation	IPP	Transmission	Energy Marketing	Total
Depreciation and amortization	**$ 126.7**	**$ 63.7**	**$ 46.4**	**$ 1.0**	**$ 237.8**
Addition to segment capital assets	**$ (247.8)**	**$ (381.0)**	**$ (44.5)**	**$ (27.2)**	**$ (700.5)**
Acquisitions	**$ (868.7)**	**$ (11.4)**	**$ –**	**$ –**	**$ (880.1)**
Year Ended Dec. 31, 1999					
Depreciation and amortization	$ 101.7	$ 45.9	$ 45.9	$ 1.3	$ 194.8
Addition to segment capital assets	$ (109.1)	$ (285.6)	$ (19.4)	$ (0.6)	$ (414.7)
Acquisitions	$ –	$ (186.7)	$ –	$ –	$ (186.7)

III: Selected balance sheet information

Year Ended Dec. 31, 2000	Generation	IPP	Transmission	Energy Marketing	Total
Segment assets	**$ 3,275.0**	**$ 1,745.3**	**$ 676.9**	**$ 1,033.1**	**$ 6,730.3**
Segment accounts payable and accrued liabilities	**$ (155.1)**	**$ (269.4)**	**$ (12.1)**	**$ (951.6)**	**$ (1,388.2)**
Year Ended Dec. 31, 1999					
Segment assets	$ 1,945.0	$ 1,218.2	$ 642.6	$ 64.6	$ 3,870.4
Segment accounts payable and accrued liabilities	$ (109.9)	$ (47.6)	$ 4.3	$ (51.5)	$ (204.7)

C: Reconciliations

I: Operations, maintenance and administration		2000	1999
Operations, maintenance and administration for reportable segments		$ 285.3	$ 209.9
Other corporate operations, maintenance and administration		74.3	52.8
Consolidated total		$ 359.6	$ 262.7
II: Depreciation and amortization (D&A) per statement of earnings			
D&A expense for reportable segments		$ 237.8	$ 194.8
D&A on corporate assets		14.2	15.5
Consolidated total		$ 252.0	$ 210.3
III: D&A per statement of cash flows			
D&A cash flow amounts for reportable segments		$ 237.8	$ 194.8
D&A on corporate assets		14.2	15.5
Discontinued operations	– Alberta D&R operation	51.7	73.5
	– New Zealand	8.8	37.2
	– Edmonton Composter	1.7	–
	– Argentina	–	1.4
Amortization of corporate financing costs		7.5	3.1
Consolidated total		$ 321.7	$ 325.5
IV: Additions to capital assets			
Total additions to capital assets for reportable segments		$ (700.5)	$ (414.7)
Other corporate additions to capital assets		(14.7)	(25.1)
Discontinued operations	– Alberta D&R operation	(46.4)	(68.6)
	– New Zealand	(8.1)	(80.1)
	– Edmonton Composter	(25.3)	(56.4)
Consolidated total		$ (795.0)	$ (644.9)
V: Acquisitions			
Total acquisitions for reportable segments		$ (880.1)	$ (186.7)
Discontinued operation	– New Zealand	–	(160.9)
Consolidated total		$ (880.1)	$ (347.6)
VI: Assets			
Total assets for reportable segments		$ 6,730.3	$ 3,870.4
Other corporate assets		774.7	613.7
Discontinued operations	– Alberta D&R operation	–	630.2
	– New Zealand	–	823.8
	– Edmonton Composter	122.1	100.3
Consolidated total		$ 7,627.1	$ 6,038.4
VII: Accounts payable and accrued liabilities			
Total accounts payable and accrued liabilities for reportable segments		$ (1,388.2)	$ (204.7)
Other corporate accounts payable and accrued liabilities		(45.8)	(29.0)
Discontinued operations	– Alberta D&R operation	–	(110.0)
	– New Zealand	–	(122.4)
	– Edmonton Composter	(3.9)	(11.9)
		$ (1,437.9)	$ (478.0)

D: Geographic Information

	Revenues 2000	Revenues 1999	Capital Assets 2000	Capital Assets 1999
Canada	**$ 1,154.7**	$ 972.6	**$ 3,962.0**	$ 4,096.7
Australia	**54.9**	56.8	**192.3**	214.3
New Zealand	**–**	–	**–**	720.0
United States	**377.4**	–	**1,122.8**	–
	$ 1,587.0	$ 1,029.4	**$ 5,277.1**	$ 5,031.0

Revenues are attributable to countries based on the location of customers. See *Note 3* for revenues related to discontinued operations.

3: DISCONTINUED OPERATIONS

A: Alberta D&R Operation

Effective Dec. 31, 1999, the corporation adopted a plan to divest its Alberta D&R operation. This operation was sold on Aug. 31, 2000 for proceeds of $857.3 million and an after-tax gain on disposal of $262.4 million ($1.55 per common share) net of income tax recoveries of $137.9 million. Proceeds on the sale totalled $857.3 million, of which $723.6 million was received by Dec. 31, 2000. The remaining balance, primarily related to deferral accounts as approved by the EUB, is expected to be received commencing in 2002 subject to final agreement with the purchaser.

As per the terms of the disposition agreement, TransAlta will share the benefit or burden of future regulatory decisions affecting the Alberta D&R pre-disposition operations. No amount has been accrued in the consolidated financial statements as the amounts were indeterminable at the reporting date.

B: New Zealand

Effective Dec. 31, 1999, the corporation adopted a plan to divest its New Zealand operations. On Mar. 31, 2000, TransAlta sold its interest in its discontinued New Zealand operations for total proceeds of NZ$832.5 million (Cdn$605.0 million) and an after-tax gain on disposal of $22.3 million ($0.13 per common share) net of income taxes of $43.1 million.

C: Edmonton Composter

Effective Dec. 31, 2000, the corporation adopted a plan to divest its composter facility in Edmonton, Alberta which commenced commercial operations in August 2000. The corporation recorded a write-down of the carrying value of the assets of $17.9 million ($0.11 per common share) net of income tax recoveries of $13.8 million in the 2000 results.

D: Argentina

Effective Dec. 31, 1998, the corporation adopted a plan to pursue divestiture opportunities relating to its investment in Argentina. A provision resulting from the expiry of an unutilized US$9.3 million standby credit facility was reversed in 1999 giving rise to income of $12.4 million. In December 1999, the corporation sold its interest in Argentina for total proceeds and gain on sale of $7.3 million.

E: Statement of Earnings

The statement of earnings amounts applicable to discontinued operations are as follows:

Year ended Dec. 31, 2000	D&R	New Zealand	Edmonton Composter[1]	Total
Revenues	**$ 180.2**	**$ 148.8**	**$ 6.3**	**$ 335.3**
Operating expenses	**103.3**	**125.8**	**4.1**	**233.2**
Operating income	**76.9**	**23.0**	**2.2**	**102.1**
Net interest expense	**(10.2)**	**(4.4)**	**(1.0)**	**(15.6)**
Earnings before income taxes and non-controlling interests	**66.7**	**18.6**	**1.2**	**86.5**
Income taxes	**(33.4)**	**(4.7)**	**(0.5)**	**(38.6)**
Non-controlling interests	**–**	**(3.1)**	**–**	**(3.1)**
Earnings subsequent to measurement date	**33.3**	**10.8**	**0.7**	**44.8**
Gain on disposal (write-down of carrying value)	**262.4**	**22.3**	**(17.9)**	**266.8**
Earnings from discontinued operations	**$ 295.7**	**$ 33.1**	**$ (17.2)**	**$ 311.6**

Year ended Dec. 31, 1999	D&R	New Zealand	Argentina[2]	Total
Revenues	$ 211.2	$ 789.0	$ 23.7	$ 1,023.9
Operating expenses	144.4	746.2	9.0	899.6
Operating income	66.8	42.8	14.7	124.3
Gain on sale of assets	–	35.2	–	35.2
Rate adjustment – 1996 and 1997 *(Note 17)*	(9.6)	–	–	(9.6)
Net interest expense	(15.1)	(20.5)	(15.7)	(51.3)
Earnings before income taxes and non-controlling interests	42.1	57.5	(1.0)	98.6
Income taxes	(20.3)	(1.6)	(2.1)	(24.0)
Non-controlling interests	–	(24.3)	3.1	(21.2)
Earnings prior to (Argentina – subsequent to) measurement date	21.8	31.6	–	53.4
Gain on disposal (no tax effect)	–	–	19.7	19.7
Earnings from discontinued operations	$ 21.8	$ 31.6	$ 19.7	$ 73.1

1: *The Edmonton Composter did not commence activities until August 2000.*

2: *The Argentina operation was sold in December 1999.*

F: Balance Sheets

At Dec. 31, 2000, all of the corporation's discontinued operations were sold except for those of the Edmonton Composter which consisted of $2.4 million in current assets, $119.7 million in capital assets and $3.9 million in current liabilities.

Balance sheet amounts applicable to discontinued operations at Dec. 31, 1999 are as follows:

	D&R	New Zealand	Edmonton Composter	Total
Current assets	$ 151.3	$ 103.8	$ 4.2	$ 259.3
Capital assets	478.9	720.0	96.1	1,295.0
Total assets	$ 630.2	$ 823.8	$ 100.3	$ 1,554.3
Current liabilities	$ 110.0	$ 125.2	$ 11.9	$ 247.1
Current portion of long-term debt	–	1.9	–	1.9
Long-term debt	34.9	38.9	–	73.8
Deferred credits	–	19.9	–	19.9
Non-controlling interests	–	112.1	–	112.1
Cumulative translation adjustment	–	(36.8)	–	(36.8)
Total liabilities and cumulative translation adjustment	$ 144.9	$ 261.2	$ 11.9	$ 418.0
Net assets	$ 485.3	$ 562.6	$ 88.4	$ 1,136.3

4: EXTRAORDINARY ITEM

In December 2000, the corporation discontinued regulatory accounting and commenced the application of generally accepted accounting principles for non-regulated businesses for its Alberta generation operations, consistent with the deregulation of the electricity generation industry in Alberta beginning on Jan. 1, 2001.

As a result of the discontinuance of regulatory accounting, the corporation recorded an extraordinary non-cash after-tax charge of $209.7 million ($1.24 per share) comprised of the following:

Write-off of regulatory accounts	$ 2.5
Write-down of net carrying values of capital assets	17.3
Recognition of previously unrecognized future income tax liabilities	189.9
	$ 209.7

5: ACQUISITIONS AND DISPOSALS – CONTINUING OPERATIONS

A: Generation

In May 2000, TransAlta purchased a power plant and the adjacent mining operations in Centralia, Washington, for cash consideration of US$582.7 million (Cdn$868.7 million). This acquisition was accounted for using the purchase method. This purchase included plant assets of $847.1 million, mine assets of $145.1 million, working capital of $65.7 million, estimated future site restoration liabilities of $168.8 million, future income tax liabilities of $5.8 million, accrued employee future liabilities of $7.5 million and other liabilities totalling $7.1 million.

B: IPP – United States

In June 2000, the corporation purchased a 50 per cent interest in Merchant Energy Group of the Americas (MEGA) for cash consideration of US$12.5 million (Cdn$18.6 million). MEGA specializes in the commercial management of power generation assets in the U.S. and will provide additional market knowledge and capability to enable the acquisition and development of power facilities in the United States. The purchase included cash of $7.2 million, a negative working capital balance of $8.8 million, capital and intangible assets of $33.6 million, and future income tax liabilities of $32.0 million.

C: IPP – Australia

In 1999, the corporation increased its interest in a gas transmission pipeline in Western Australia from 6.3 per cent to 8.8 per cent for consideration of $14.1 million. A subsequent return of capital in 1999 provided cash of $30.4 million.

Also in 1999, the corporation acquired an 85 per cent interest in four gas-fired power generating stations and transmission lines in Western Australia for cash consideration of $186.7 million (net of cash acquired of $2.3 million). Total assets acquired amounted to $222.3 million, $220.0 million of which related to capital assets. Non-controlling interest assumed was $33.3 million.

6: INVESTMENTS

	2000	1999
Restricted bank deposits	**$ 198.4**	$ 224.8
Restricted investments	**–**	88.3
Investment in Australian gas transmission pipeline	**20.2**	22.9
Investment in wind power generation	**8.5**	–
Other	**0.9**	–
	$ 228.0	$ 336.0
Less current portion – restricted investments	**–**	88.3
	$ 228.0	$ 247.7

Bank deposits are the equivalent of NZ$298.8 million at an average fixed interest rate of 6.6 per cent with maturity in 2004. The deposits have been pledged as collateral for the New Zealand bank facility *(Note 11)*. Restricted investments of $80.3 million of fixed income securities matured on Jan. 4, 2000 and became available for general corporate purposes while US$4.5 million of proceeds held in escrow on the sale of Argentina were released in 2000 upon receipt of regulatory approval.

7: LONG-TERM RECEIVABLES

	2000	1999
Due from UtiliCorp Networks Canada *(Notes 3 and 20)*	**$ 136.0**	$ –
Deferral accounts receivable *(Note 3)*	**77.9**	–
Due from Syncrude Canada Ltd.	**27.3**	39.4
Coal rights receivable and other	**4.7**	–
	$ 245.9	$ 39.4
Less current portion included in accounts receivable	**13.0**	12.2
	$ 232.9	$ 27.2

Both the amount due from UtiliCorp Networks Canada and the deferral accounts receivable that arose from the sale of the discontinued Alberta D&R operation are unsecured and interest bearing at a rate to be determined by the EUB with repayment commencing in 2002. The long-term receivable from Syncrude Canada Ltd. is unsecured, non-interest bearing and repayable in equal monthly amounts through March 2003. The coal rights receivable is unsecured and non-interest bearing and has no fixed terms of repayment.

8: CAPITAL ASSETS

	Depreciation Rates	2000 Cost	2000 Accumulated Depreciation	1999 Cost	1999 Accumulated Depreciation
Coal rights	.02% – 20%	$ **785.9**	$ **282.4**	$ 568.4	$ 255.3
Thermal generation	3.1% – 4%	**2,751.5**	**870.5**	1,928.6	786.6
Thermal environmental equipment	3.6%	**436.7**	**233.4**	424.3	224.5
Gas generation	4% – 5%	**1,002.2**	**169.7**	1,308.7	133.5
Hydro generation	2.8% – 5%	**311.4**	**90.4**	409.9	88.6
Transmission systems	2% – 10%	**1,344.3**	**731.1**	1,304.3	675.5
D&R systems	2% – 20%	–	–	1,172.8	712.2
Customer intangibles	5%	–	–	231.2	13.4
Other	Various	**332.1**	**107.5**	310.7	105.7
Assets under construction	None	**798.0**	–	367.4	–
		$ 7,762.1	**$ 2,485.0**	$ 8,026.3	$ 2,995.3

The corporation capitalized AFUDC of $3.6 million (1999 – $3.4 million) and interest during construction of $36.2 million (1999 – $15.1 million) to assets under construction.

9: OTHER ASSETS

	2000	1999
Deferred license fees	$ **25.2**	$ 35.6
Cross-currency swaps *(Note 20)*	**23.4**	15.7
Deferred financing costs	**10.0**	11.2
Deferred currency forward contracts *(Note 20)*	**6.9**	25.5
Deferred regulatory hearing costs	**6.2**	8.3
Deferred project management costs	**5.3**	14.6
	$ **77.0**	$ 110.9

10: SHORT-TERM DEBT

	2000 Outstanding	2000 Interest [1]	1999 Outstanding	1999 Interest [1]
Commercial paper	$ **258.4**	**5.7%**	$ 210.1	5.0%
Bank debt	**214.3**	**5.8%**	4.7	6.5%
	$ **472.7**		$ 214.8	

1: Interest is an average rate weighted by principal amounts outstanding before the effect of hedging.

11: LONG-TERM DEBT

A: Amounts Outstanding

	2000 Outstanding	2000 Interest [1]	1999 Outstanding	1999 Interest [1]
Recourse				
Debentures, due 2001 to 2033 [2]	**$ 1,563.4**	**7.1%**	$ 1,763.3	7.1%
Bank credit facilities – New Zealand, due 2004 [3]	**198.4**	**6.9%**	224.8	6.9%
Notes payable – Windsor plant, due 2001 to 2014 [4]	**68.2**	**7.4%**	70.0	7.4%
Other, due to 2005 [5]	**24.8**	**8.0%**	25.3	8.0%
Capital lease obligation, due 2004 [6]	**9.2**	**9.4%**	10.4	9.4%
Preferred securities, due 2048 [7]	**8.6**	**7.7%**	7.9	7.7%
Commercial paper [8]	**300.0**	**6.0%**	–	–
Bank credit facilities – Campeche (US$19 million) [9]	**28.8**	**7.5%**	–	–
Notes payable – FESL, due 2002 [10]	**–**	**–**	34.9	6.5%
	2,201.4		2,136.6	
Non-recourse				
Bank debt – Southdown plant, due 2011 [11]	**–**	**–**	40.8	5.9%
	2,201.4		2,177.4	
Less current portion	**79.6**		211.8	
	$ 2,121.8		$ 1,965.6	

1: *Interest rate : is an average rate weighted by principal amounts outstanding before the effect of hedging.*

2: *Debentures : The debentures bear interest at fixed rates. A floating charge on the property and assets of TransAlta Utilities has been provided as collateral for $973.4 million of the debentures as at Dec. 31, 2000. The interest rate on $150.0 million of the 2000 amount has been converted to floating rates using receive fixed interest rate swaps maturing in 2009. Debentures of $100 million maturing in 2023 and $50 million maturing in 2033 are redeemable at the option of the holder in 2008 and 2009, respectively. Another debenture of $150 million maturing in 2005 is extendible until 2030 at the option of the holder.*

3: *Bank Credit Facility – New Zealand : The corporation has a fully drawn fixed interest rate bank facility of NZ$298.8 million, with restricted investments pledged as collateral* (Note 6).

4: *Notes Payable – Windsor Plant : The Windsor plant notes payable bear interest at fixed rates and are recourse to the corporation through a standby letter of credit.*

5: *Other : Other long-term debt includes a $22.4 million (1999 – $20.6 million) advance in respect of a partner's contribution to an independent power project which bears interest at a fixed rate.*

6: *Capital Lease Obligation : Certain coal mining capital assets have been provided as collateral. The obligation bears interest at a fixed rate.*

7: *Preferred Securities : The debt component amount of the preferred securities* (Note 14) *represents the present value of the principal amount of $300 million due in 2048. Interest accretion at the coupon rate is included in interest expense.*

8: *Commercial Paper : Amounts outstanding at Dec. 31, 2000 include US$73.0 million of commercial paper. Under the terms of TransAlta's credit facility, the corporation has the ability and intent to maintain these commercial paper borrowings beyond one year. The corporation has designated US$73.0 million as a long-term hedge of its net investment in U.S. operations* (Note 20).

9: *Bank Credit Facilities – Campeche : In December 2000, the corporation established a US$133.6 million 16-year credit facility for the financing of the construction of an IPP power plant in Campeche, Mexico. The initial borrowing totalled US$19.0 million with an interest rate of 7.5 per cent. Subsequent borrowings will be at LIBOR plus 0.875 per cent during construction and 2.25 per cent upon completion of the construction with step-ups. This facility is 70 per cent hedged with a receive fixed interest rate swap* (Note 20) *and a forward start swap at 7.4 per cent plus a margin. During construction, the facility is secured by a floating charge on the assets of TransAlta Energy Corporation. Upon completion of the construction, the facility is secured by the Campeche plant.*

10: *Notes Payable – FESL : The notes payable to rural electrification co-operative associations through their agent, Farm Electric Services Ltd. (FESL), represent funds contributed by members of these associations, bear interest at variable rates and are unsecured. The notes were disposed of on Aug. 31, 2000 as part of the disposition of Alberta D&R operations.*

11: *Bank Debt – Southdown Plant : Non-recourse debt related to the Southdown power plant was payable in New Zealand dollars and repayable in quarterly instalments to 2011. The assets and related contracts of the plant were provided as collateral. This debt was disposed of with the sale of the New Zealand operation* (Note 3).

B: Principal Repayments

Long-term debt principal amounts are due in the following years:

2001	$ 79.6
2002	105.0
2003	355.4
2004	329.3
2005	110.4
2006 and thereafter	1,221.7
	$ 2,201.4

C: Interest

Interest expense on long-term debt was $165.7 million (1999 – $154.2 million), of which $149.9 million (1999 – $101.2 million) relates to continuing operations.

D: Letters of Credit and Guarantees

At Dec. 31, 2000, the corporation had $50.8 million and US$180.0 million in letters of credit outstanding. In addition, the corporation has issued various performance guarantees in support of Energy Marketing trading, Treasury hedging and IPP project activities. The corporation has also issued a US$156.7 million surety bond in support of future site reclamation liabilities associated with the Centralia mining operation.

12: DEFERRED CREDITS AND OTHER LONG-TERM LIABILITIES

	2000	1999
Future site restoration costs	**$ 283.4**	$ 99.2
Unamortized gain on sale of capital assets to limited partnership	**139.0**	148.8
Fair value of swap transaction with limited partnership *(Note 22)*	**19.0**	–
Deferred revenues	**13.7**	11.3
Electricity supply obligations	**–**	9.4
	$ 455.1	$ 268.7

The unamortized gain on sale of capital assets to limited partnership relates to the gain on disposal of a 49.99 per cent interest in Ontario cogeneration assets held by TransAlta Cogeneration, L.P. (TA Cogen) to TransAlta Power L.P. (TA Power), a publicly owned entity, in 1998. The corporation received the final instalment on the sale of $118.4 million in April 1999. The corporation is obligated to purchase all of TA Power's interest in TA Cogen on Dec. 31, 2018, at the fair market value at that date. Accordingly, the gain of $160.3 million is being deferred and amortized on a straight-line basis over the period to Dec. 31, 2018. Amortization of the gain in the amount of $7.7 million (1999 – $7.8 million) was presented within depreciation and amortization in the statement of earnings.

13: NON-CONTROLLING INTERESTS

A: Statements of Earnings

	2000	1999
Dividend requirements on preferred shares of a subsidiary	**$ 11.7**	$ 21.1
TA Power's limited partnership interest in TA Cogen *(Note 22)*	**29.4**	9.1
Other common shareholders' interests	**0.5**	0.7
	$ 41.6	$ 30.9

B: Preferred Shares of a Subsidiary

	2000	1999
4.0% – 7.7% Series	**$ 121.6**	$ 122.2
8.4% Series	**–**	146.1
	$ 121.6	$ 268.3

An unlimited number of first and second preferred shares, all without nominal or par value, have been authorized for issuance by TransAlta Utilities. The first preferred shares, which are issuable in series, are cumulative and redeemable at designated dates at the option of the corporation at their subscription price together with a premium not in excess of the annual dividend. Certain series have annual purchase amounts which are non-cumulative but require the corporation to make all reasonable efforts to purchase for cancellation, in the open market, preferred shares at a price not exceeding their subscription price plus any accrued and unpaid dividends and costs of purchase. In March 2000, the 8.4% Series were redeemed for $146.1 million.

C: Balance Sheets – Other Non-Controlling Interests

	2000	1999
TA Power's limited partnership in TA Cogen	**$ 244.8**	$ 256.1
Other common shareholders' interests	**8.6**	121.3
	$ 253.4	$ 377.4

14: PREFERRED SECURITIES

Maturity	Call Date	Coupon	2000	1999
2048	2004	7.50%	**$ 169.5**	$ 166.5
2048	2004	8.15%	**122.5**	120.6
			$ 292.0	$ 287.1

In 1999, the corporation issued preferred securities for proceeds, net of issue costs and related tax benefits, of $294.8 million. The preferred securities are subordinated and unsecured. The corporation may elect to defer coupon payments on the preferred securities and settle deferred coupon payments in either cash or common shares of the corporation. As a result, the preferred securities are classified into their respective debt *(Note 11)* and equity components. The above equity component amounts represent the present value of future coupon payments.

The corporation may redeem the preferred securities in whole or in part on or after 2004 at a redemption price equal to 100 per cent of the principal amount of the preferred securities plus accrued and unpaid distributions thereon to the date of such redemption. In 1999, the corporation monetized a portion of this redemption feature by writing pay fixed swaptions exercisable in 2004, having a notional amount of $75.0 million and a weighted average interest rate of 6.1 per cent. In return, the corporation received a premium of $2.0 million, which has been recorded in deferred credits and is amortized to income over the life of the swaptions. At Dec. 31, 2000, the swaptions had a fair value liability of $2.4 million.

Supplemental fully diluted earnings per share for 2000 from continuing operations and net earnings were $1.02 (1999 – $0.55) and $1.57 (1999 – $0.94) respectively.

15: COMMON SHARES

A: Issued and Outstanding

The corporation is authorized to issue an unlimited number of voting common shares without nominal or par value.

	2000	**2000**	1999	1999
	Common shares (millions)	Amount	Common shares (millions)	Amount
Issued and outstanding at beginning of year	**169.2**	**$ 1,145.9**	169.6	$ 1,144.4
Repurchased by the corporation	**(1.6)**	**(10.6)**	(1.0)	(6.2)
Issued under dividend reinvestment and share purchase plan	**0.7**	**10.4**	0.4	4.8
Issued for cash under share option plans	**0.2**	**2.9**	0.2	2.9
Issued under performance share ownership plan	**0.1**	**1.7**	–	–
	168.6	**$ 1,150.3**	169.2	$ 1,145.9

In 2000, the corporation purchased for cancellation, under its normal course issuer bid, 1,567,100 common shares in the amount of $23.9 million. The $13.3 million excess of the repurchase price over the average net book value was charged to contributed surplus and retained earnings. Under the terms of the normal course issuer bid program, the corporation is allowed to purchase for cancellation up to three million of its common shares. At Dec. 31, 1999, there had been 955,600 common shares repurchased.

B: Shareholder Rights Plan

The primary objective of the shareholder rights plan is to provide the corporation's board of directors sufficient time to explore and develop alternatives for maximizing shareholder value if a takeover bid is made for the corporation and to provide every shareholder with an equal opportunity to participate in such a bid.

When an acquiring shareholder acquires 20 per cent or more of the outstanding common shares of the corporation and that shareholder does not make a bid for all of the common shares outstanding, each shareholder other than the acquiring shareholder may receive one right for each common share owned. Each right will entitle the holder to acquire an additional $160 worth of common shares for $80.

16: STOCK-BASED COMPENSATION PLANS

At Dec. 31, 2000, the corporation had three types of stock-based compensation plans and an employee share purchase plan.

The corporation is authorized to grant employees options to purchase up to an aggregate of 6,000,000 common shares at prices based on the market price of the shares as determined on the date of the grant. The corporation has reserved 6,000,000 common shares for issue.

A: Fixed Stock Option Plans

I: MANAGEMENT PLAN : The granting of options under this fixed stock option plan was discontinued in 1997. Options were granted under this plan to certain eligible employees. The options could not be exercised until one year after grant and thereafter at an amount not exceeding 20 per cent of the grant per year on a cumulative basis until the sixth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

II: EMPLOYEE PLAN : This plan came into effect in 2000 and was offered to all full-time and part-time employees at or below the level of manager. Options granted under this plan may not be exercised until one year after grant and thereafter at an amount not exceeding 25 per cent of the grant per year on a cumulative basis until the fifth year, after which the entire grant may be exercised until the tenth year, which is the expiry date.

III: D&R PLAN : This plan came into effect in 2000 and was offered to all full-time and part-time employees employed by the D&R business segment. Options granted under this plan could not be exercised until the date of the closing of the Alberta D&R sale, after which the entire grant may be exercised until the third year, which is the expiry date.

	Management plan	Management plan	Employee plan	Employee plan	D&R plan	D&R plan
	Number of share options (millions)	Weighted average exercise prices	Number of share options (millions)	Weighted average exercise prices	Number of share options (millions)	Weighted average exercise prices
Outstanding at Dec. 31, 1998	1.0	$ 14.07	–	–	–	–
Granted	–	–	–	–	–	–
Exercised	(0.2)	13.76	–	–	–	–
Cancelled or expired	–	–	–	–	–	–
Outstanding at Dec. 31, 1999	0.8	$ 14.13	–	$ –	–	$ –
Granted	**–**	**–**	**0.7**	**14.20**	**0.1**	**14.20**
Exercised	**(0.2)**	**13.37**	**–**	**–**	**–**	**–**
Cancelled or expired	**–**	**–**	**(0.1)**	**14.20**	**–**	**–**
Outstanding at Dec. 31, 2000	**0.6**	**$ 14.37**	**0.6**	**$ 14.20**	**0.1**	**$ 14.20**

At Dec. 31, 2000, outstanding options, expiring between 2001 and 2010, had exercise prices between $12.77 and $23.05, of which 550,839 were exercisable at a weighted average exercise price of $14.28.

B: Performance Stock Option Plan

In 1999, the corporation expanded enrolment in the share option program to include all domestic employees of the corporation by issuing stock options with an expiry date of 2009 and vesting dependent upon achieving certain earnings per share targets. At Dec. 31, 2000, all outstanding options were unvested.

	2000 Number of share options (millions)	2000 Weighted average exercise prices	1999 Number of share options (millions)	1999 Weighted average exercise prices
Outstanding at beginning of year	**0.9**	**$ 23.05**	–	–
Granted	**0.1**	**14.15**	1.0	$ 23.05
Exercised	**–**	**–**	–	
Cancelled or expired	**(0.4)**	**22.29**	(0.1)	23.05
Outstanding at end of year	**0.6**	**$ 21.87**	0.9	$ 23.05

C: Performance Share Ownership Plan (PSOP)

Under the terms of the PSOP which commenced in 1997, the corporation is authorized to grant employees and directors up to an aggregate of 2,000,000 common shares. The number of common shares which may be issued under both the PSOP and the share option plans, however, shall not exceed 6,000,000 common shares. Participants in the PSOP receive awards which, after three years, make them eligible to receive a set number of common shares or cash equivalent up to the maximum of the award amount plus any accrued dividends thereon. The actual number of common shares or cash equivalent a participant may receive is determined by the percentile ranking of the total shareholder return over three years of the corporation's common shares amongst a selected group of publicly traded companies. Where common shares are awarded, such shares may not be disposed of for a period of two years.

	2000 Number of awards (millions)	1999 Number of awards (millions)
Outstanding at beginning of year	**0.9**	0.6
Granted	**0.5**	0.3
Awarded	**(0.1)**	–
Cancelled or expired	**(0.3)**	–
Outstanding at end of year	**1.0**	0.9

In 2000, PSOP compensation expense was $5.1 million (1999 – $0.9 million income). The first PSOP award maturity occurred in 2000 and 120,101 common shares were issued at $14.15 per share.

D: Employee Share Purchase Plan

Under the terms of the new employee share purchase plan implemented in 2000, the corporation will extend an interest-free loan (up to 30 per cent of employee's base salary) to employees and allow for payroll deductions over a three-year period to repay these loans. The corporation will purchase these common shares on the open market on behalf of employees at prices based on the market price of the shares as determined on the date of purchase. Employee sales of these shares are handled in the same manner. At Dec. 31, 2000, accounts receivable from employees under the plan totalled $1.6 million.

A previous employee share purchase plan was terminated in 2000 and involved the issuance of up to an aggregate of 200,000 common shares at prices based on the market price of the shares as determined on the date of issue. Employees were able to obtain an interest-free loan up to 10 per cent of their gross salary which was repayable over a 12-month period. In 2000, 19,535 common shares were purchased under the old plan and will be fully repaid by the employees by April 2001.

17: PRIOR PERIOD REGULATORY DECISIONS

A: 1997 and 1996 Rate Adjustments Recorded in 1999

The EUB Phase II decision regarding TransAlta Utilities' rates for 1997 and 1996 was received in 1999. The EUB awarded an interest refund to retail customers for payment of interest on rate refunds relating to its 1997 and 1996 rate decision. This rate adjustment reduced 1999 pre-tax earnings from discontinued operations by $9.6 million ($5.3 million after-tax; $0.03 per common share).

B: Final 1999 Decision Recorded in 2000

On Feb. 1, 2000, the EUB announced an amendment to its 1999 Phase I decision concerning a 1999 revenue requirement issue that partially offset the effect of its original decision which was recorded in 1999. This amendment increased pre-tax earnings from continuing operations by $30.6 million ($16.4 million after-tax; $0.10 per common share) and was recorded in the first quarter of 2000. This decision also included a reduction in earnings of approximately $0.8 million related to the discontinued Alberta D&R operation.

C: TSR Settlement

In September 2000, TransAlta negotiated a settlement resulting in the receipt of $17.8 million ($9.9 million after-tax; $0.06 per common share) under the Temporary Suspension Regulation (TSR) to compensate the corporation for obligation payments incurred as a result of Alberta generation production outages occurring in 1999 and 2000. Approximately $13.5 million ($7.4 million after-tax; $0.04 per common share) of this receipt related to 1999 outages.

18: INCOME TAXES

A: Statements of Earnings

I: Rate reconciliations	2000	1999
Earnings from continuing operations before income taxes & non-controlling interests	$ 401.7	$ 238.6
Statutory Canadian federal and provincial income tax rate	44.62%	44.62%
Expected taxes on income	$ 179.3	$ 106.4
Increase (decrease) in income taxes resulting from:		
Lower effective foreign tax rates	(23.4)	(6.7)
Resource allowance rate reduction	(4.7)	(5.3)
TA Power's share of TA Cogen's partnership income	(4.4)	(4.1)
Manufacturing and processing rate reduction	(3.0)	(1.0)
Non-deductible costs and other	10.4	2.2
Large corporations tax (net of surtax)	8.2	4.5
Effect of tax rate changes	2.6	–
Non-deductible royalties	2.1	2.3
Unrecognized future income tax assets	1.5	–
Net effect of regulatory accounting	0.8	7.2
Income tax expense	$ 169.4	$ 105.5
Effective tax rate	42.2%	44.2%

II: Components of income tax expense	2000	1999
Current tax expense	$ 151.6	$ 86.7
Future income tax expense related to the origination and reversal of temporary differences	15.2	18.8
Future income tax expense resulting from changes in tax rates or laws	2.6	–
Income tax expense	$ 169.4	$ 105.5

B: Balance Sheets

Significant components of the corporation's future tax assets and liabilities are as follows:

	2000	1999
Unrealized losses on electricity trading contracts	$ 393.9	$ 3.1
Future site restoration costs	105.4	44.6
Net operating and capital loss carryforwards	42.0	21.3
Other deductible temporary differences	42.4	16.5
Unrealized gains on electricity trading contracts	(417.2)	(3.1)
Capital assets	(395.6)	(149.7)
Other taxable temporary differences	(80.9)	(5.0)
	$ (310.0)	$ (72.3)

Presented in the balance sheets as follows:

	2000	1999
Assets – current	$ 30.3	$ 1.0
– long-term	9.1	6.1
Liabilities – long-term	(349.4)	(79.4)
	$ (310.0)	$ (72.3)

Future tax assets have not been recognized for the following items:

	Expiry Date	2000	1999
Unused tax losses	2016	$ 8.6	$ 31.1
Deductible temporary differences	–	–	33.5
		$ 8.6	$ 64.6

The benefits of current and future income taxes credited to equity are as follows:

	2000	1999
Balance Sheet – preferred securities issue costs	$ –	$ 4.4
Statement of earnings and retained earnings – preferred securities distributions	$ 10.1	$ 4.2
Cumulative translation adjustment	$ 12.1	$ –

C: Regulated Operations

The following unrecognized amounts relating to the corporation's rate-regulated operations would have been recorded had these operations been non-rate-regulated:

	2000	1999
Balance sheet – unrecognized future income tax assets (liabilities)	$ 21.2	$ (88.9)
Net earnings – unrecognized future income tax recovery	$ 110.1	$ 7.4

19: EMPLOYEE FUTURE BENEFITS

A: Description

The corporation has a registered pension plan with defined benefit and defined contribution options and a supplemental defined benefit plan covering substantially all employees of the corporation, its domestic subsidiaries and specific named employees working internationally. The defined benefit option of the registered pension plan ceased for new employees on June 30, 1998. The latest actuarial valuations of the registered and supplemental pension plans were as at Aug. 31, 2000.

The corporation provides other health and dental benefits to the age of 65 for both disabled members (other post-employment benefits) and retired members (other post-retirement benefits). The latest actuarial valuation of these other plans was as at Dec. 31, 1998.

B: Expense

Dec. 31, 2000	Registered	Supplemental	Other	Total
Current service cost	**$ 3.2**	**$ 0.7**	**$ 0.4**	**$ 4.3**
Interest cost	**21.3**	**1.5**	**0.7**	**23.5**
Expected return on plan assets	**(29.0)**	**–**	**–**	**(29.0)**
Curtailment as a result of other post-employment plan changes	**–**	**–**	**(2.1)**	**(2.1)**
Settlement upon sale of Alberta D&R operation *(Note 3)*	**13.9**	**–**	**(1.2)**	**12.7**
Amortization of net transition (asset) obligation	**(9.5)**	**0.3**	**–**	**(9.2)**
Defined benefit (income) expense	**$ (0.1)**	**$ 2.5**	**$ (2.2)**	**$ 0.2**
Defined contribution option expense of registered pension plan				**10.2**
Expense before capitalization				**10.4**
Regulatory capitalization to plant and equipment				**0.5**
Net expense				**$ 10.9**

Dec. 31, 1999	Registered	Supplemental	Other	Total
Current service cost	$ 3.0	$ 0.8	$ 0.4	$ 4.2
Interest cost	19.3	1.3	0.6	21.2
Expected return on plan assets	(28.7)	–	–	(28.7)
Amortization of net transition (asset) obligation	(9.8)	0.3	0.1	(9.4)
Defined benefit (income) expense	$ (16.2)	$ 2.4	$ 1.1	$ (12.7)
Defined contribution option expense of registered pension plan				10.3
Income before capitalization				(2.4)
Regulatory capitalization to plant and equipment				0.5
Net income				$ (1.9)

Net expense related to continuing operations for 2000 was income of $2.2 million (1999 – income of $1.3 million).

C: Status of Plans

Dec. 31, 2000	Registered	Supplemental	Other	Total
Fair value of plan assets	**$ 423.5**	**$ –**	**$ –**	**$ 423.5**
Accrued benefit obligation	**323.8**	**24.6**	**9.1**	**357.5**
Funded status – plan surplus (deficit) [1]	**99.7**	**(24.6)**	**(9.1)**	**66.0**
Amounts not yet recognized in financial statements:				
Unamortized transition (asset) obligation	**(93.4)**	**4.3**	**0.1**	**(89.0)**
Unamortized net actuarial gains	**(27.3)**	**1.2**	**0.6**	**(25.5)**
Total recognized in financial statements:				
Accrued liability	**$ (21.0)**	**$ (19.1)**	**$ (8.4)**	**$ (48.5)**
Amortization period in years (EARSL)	**11**	**11**	**15**	

Dec. 31, 1999	Registered	Supplemental	Other	Total
Fair value of plan assets	$ 417.2	$ –	$ –	$ 417.2
Accrued benefit obligation	285.5	19.7	9.6	314.8
Funded status – plan surplus (deficit)	131.7	(19.7)	(9.6)	102.4
Amounts not yet recognized in financial statements:				
Unamortized transition (asset) obligation	(106.5)	4.6	0.4	(101.5)
Unamortized net actuarial gains	(28.7)	(2.7)	(0.9)	(32.3)
Total recognized in financial statements:				
Accrued liability	$ (3.5)	$ (17.8)	$ (10.1)	$ (31.4)
Amortization period in years (EARSL)	12	15	15	

1: Management intends to utilize the surplus in the registered defined benefit plan to pay benefits under both the registered defined contribution plan and the supplemental defined benefit plan.

D: Reconciliation of Plan Assets

	Registered	Supplemental	Other	Total
Fair value of plan assets on Dec. 31, 1998	$ 425.9	$ –	$ –	$ 425.9
Contributions	–	–	–	–
Transfers to defined contribution option	(10.3)	–	–	(10.3)
Business combination	2.2	–	–	2.2
Benefits paid	(24.9)	–	–	(24.9)
Actual return on plan assets*	24.3	–	–	24.3
Fair value of plan assets at Dec. 31, 1999	417.2	–	–	417.2
Contributions	**–**	**–**	**–**	**–**
Transfers to defined contribution option	**(10.2)**	**–**	**–**	**(10.2)**
Settlement upon sale of Alberta D&R operation *(Note 3)*	**(29.5)**	**–**	**–**	**(29.5)**
Business combination *(Note 5)*	**21.8**	**–**	**–**	**21.8**
Benefits paid	**(24.7)**	**–**	**–**	**(24.7)**
Actual return on plan assets*	**48.9**	**–**	**–**	**48.9**
Fair value of plan assets at Dec. 31, 2000	**$ 423.5**	**$ –**	**$ –**	**$ 423.5**

** net of expenses*

Plan assets include common shares of the corporation having a fair value of $ 0.9 million at Dec. 31, 2000 (1999 – $0.6 million). The corporation charged the registered plan $0.1 million (1999 – $0.1 million) for administrative services provided for the year ended Dec. 31, 2000.

E: Reconciliation of Accrued Benefit Obligations

	Registered	Supplemental	Other	Total
Accrued benefit obligation as at Dec. 31, 1998	$ 317.9	$ 21.4	$ 10.3	$ 349.6
Current service cost	3.0	0.8	0.4	4.2
Interest cost	19.3	1.3	0.6	21.2
Benefits paid	(23.8)	(1.1)	(0.8)	(25.7)
Business combination	2.1	–	–	2.1
Actuarial gains	(33.0)	(2.7)	(0.9)	(36.6)
Accrued benefit obligation as at Dec. 31, 1999	285.5	19.7	9.6	314.8
Current service cost	**3.2**	**0.7**	**0.4**	**4.3**
Interest cost	**21.3**	**1.5**	**0.7**	**23.5**
Benefits paid	**(23.6)**	**(1.1)**	**(0.9)**	**(25.6)**
Curtailment as a result of other post-employment plan changes	**–**	**–**	**(2.1)**	**(2.1)**
Settlement upon sale of Alberta D&R operation *(Note 3)*	**(11.0)**	**–**	**(1.2)**	**(12.2)**
Business combination *(Note 5)*	**28.1**	**–**	**2.4**	**30.5**
Actuarial gains	**20.3**	**3.8**	**0.2**	**24.3**
Accrued benefit obligation as at Dec. 31, 2000	**$ 323.8**	**$ 24.6**	**$ 9.1**	**$ 357.5**

The significant actuarial assumptions adopted in measuring the corporation's accrued benefit obligations were as follows:

Dec. 31, 2000	Registered	Supplemental	Other
Liability discount rate	**7.0 – 7.5%**	**7.0%**	**7.0 – 7.5%**
Expected long-term rate of return on plan assets	**7.0 – 8.5%**	**–**	**–**
Rate of compensation increase (exclusive of promotion increases)	**3.5%**	**3.5%**	**–**
Health care cost escalation	**–**	**–**	**6.6 – 7.0%***
Dental care cost escalation	**–**	**–**	**3.5%**
Provincial health care premium escalation	**–**	**–**	**2.5%**

** For five years, and five per cent thereafter for Canadian plans. For U.S. plans, decreasing gradually to 4.5 per cent for 2016 and remaining at that level thereafter.*

Dec. 31, 1999			
Liability discount rate	7.3%	7.3%	7.3%
Expected long-term rate of return on plan assets	7.0%	–	–
Rate of compensation increase (exclusive of promotion increases)	3.5%	3.5%	–
Health care cost escalation	–	–	7.0%*
Dental care cost escalation	–	–	3.5%
Provincial health care premium escalation	–	–	2.5%

** For five years, and five per cent thereafter*

20: FINANCIAL RISK MANAGEMENT

A: Foreign Exchange Rate Risk Management

I: HEDGES OF FOREIGN OPERATIONS : The corporation has exposure to changes in the carrying values and earnings of its foreign operations as a result of changes in foreign exchange rates. The corporation uses cross-currency swaps at fixed-rate terms, forward sales contracts and direct foreign currency debt to hedge these exposures. The principal component of the cross-currency swaps and direct foreign currency debt hedge a portion of the carrying value of foreign operations. Translation gains and losses related to these components are deferred and included in the cumulative translation adjustment (CTA) in shareholders' equity on a net of tax basis.

The interest component of the cross-currency swaps, interest on direct foreign currency debt as well as the forward sales contracts hedge a portion of the future earnings of the foreign operations. Settlement gains and losses are included in earnings as realized.

Details of the notional amounts of cross-currency swaps were as follows:

	2000	**2000**	1999	1999
	Amount	Maturities	Amount	Maturities
New Zealand dollar hedges	**–**	**–**	NZ$204.0	2001 – 2009
Australian dollar hedges	**AUS$305.0**	**2002 – 2009**	AUS$118.0	2002 – 2009
U.S. dollar hedges	**US$664.0**	**2002 – 2009**	–	–

At Dec. 31, 2000, the fair value of the cross-currency swaps was a liability of $3.6 million (1999 – $16.3 million asset) of which a $23.4 million asset (1999 – $15.7 million asset) related to the principal component of the swaps is deferred and was recorded in other assets *(Note 9)*.

The corporation has also hedged a portion of its future earnings from foreign operations through forward sales contracts maturing in 2001 with total notional amounts of US$16.3 million (1999 – $nil), NZ$12.5 million (1999 – $11.5 million) and AUS$19.3 million (1999 – $nil). The fair values for these contracts are a $0.7 million asset (1999 – $nil), a $0.9 million liability (1999 – $nil), and a $0.4 million liability (1999 – $nil), respectively.

In addition, the corporation has designated U.S. long-term debt *(Note 11)* in the amount of US$73.0 million (1999 – $nil) as a hedge of its net investment in U.S. operations with $0.3 million of related foreign currency losses deferred and included in CTA.

II: HEDGES OF FUTURE FOREIGN CURRENCY OBLIGATIONS The corporation has hedged future foreign currency obligations through forward purchase contracts as follows:

		2000	**2000**	1999	1999
Currency sold	Purchased	Currency Amount	Fair value asset (liability)	Amount	Fair value asset
U.S. dollars	Swiss francs	**52.0 Swiss francs**	**$ (2.8)**	147.1 Swiss francs	$ 4.2
Canadian dollars	U.S. dollars	**US$91.0**	**$ 2.1**	US$56.5	$ 0.3
Canadian dollars	GBP	**4 GBP**	**$ 0.1**	–	–

At Dec. 31, 2000, deferred foreign exchange losses of $6.9 million (1999 – $25.5 million) related to these hedges were included in other assets *(Note 9)*.

In addition, at Dec. 31, 2000, the corporation hedged a foreign currency denominated short-term intercompany operating loan to a self-sustaining foreign operation using a cross-currency swap having a notional amount of US$12.5 million (1999 – $nil) and a fair value of $0.1 million asset (1999 – $nil).

B: Interest Rate Risk Management

I: EXISTING DEBT : At Dec. 31, 2000, the corporation has fixed the interest rates on 64 per cent (1999 – 74 per cent) of its debt through fixed-rate borrowings. In 1999, in addition to fixed-rate borrowings, the company utilized pay fixed interest rate swaps with a total notional principal amount of $91.3 million *(Note 11)* and a total fair value of a $0.5 million asset.

The corporation has converted the interest rates on $150.0 million (1999 – $400.0 million) of its long-term fixed interest rate debt to floating rates through receive fixed interest rate swaps *(Note 11)*. The total fair value of these swaps as at Dec. 31, 2000 was a $5.3 million asset (1999 – $16.5 million liability).

The fair value of the corporation's fixed interest long-term debt changes as interest rates change, with details as follows:

	2000	**2000**	1999	1999
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt – recourse	**$ 2,201.4**	**$ 2,205.0**	$ 2,136.6	$ 2,172.6

II: FUTURE DEBT ISSUANCES : The corporation uses forward starting interest rate swaps to hedge its interest payments on future debt issuances. As at Dec. 31, 2000 the total notional principal amounts were $200.0 million (1999 – $200.0 million) and US$93.5 million (1999 – $nil), having total fair value liabilities of $2.6 million (1999 – $10.8 million asset) and $6.2 million (1999 – $nil), respectively, and maturities from 2006 – 2016.

C: Energy Commodities Price Risk Management

I: TRADING ACTIVITIES : The corporation markets energy derivatives, including physical and financial swaps, forwards and options, to gain market information, optimize returns from assets and to earn trading revenues. At Dec. 31, 2000, details of the corporation's trading positions were as follows:

	Units (000's)	Fixed price payor notional amounts	Fixed price receiver notional amounts	Maximum term in months
Electricity	**megawatt-hours (MWh)**	**11,282**	**11,202**	**48**
Natural gas	**gigajoules (GJ)**	**20,432**	**20,432**	**36**
	MMBTUs	**57,724**	**57,579**	**4**
Heating oil	**gallons**	**1,050**	**–**	**1**

The carrying and fair value of energy commodity trading assets included in accounts receivable was $1,150.3 million (1999 – $7.7 million). The carrying and fair value of energy commodity liabilities included in accounts payable was $1,110.3 million (1999 – $7.3 million).

II: HEDGING ACTIVITIES : The corporation uses energy derivatives, including physical and financial swaps, forwards and options, to manage its exposure to changes in electricity and natural gas prices. At Dec. 31, 2000, details of the corporation's hedging position were as follows:

	Fixed price payor notional amounts	Fixed price receiver notional amounts	Maximum term in months
Alberta Generation Heat Rate Swaps	**2,173 MWh**	**15,297 GJ**	**94**

The fair value of these swaps was a liability of $54.8 million (1999 – $nil).

In addition, the corporation has entered into a number of long-term gas purchase and transportation agreements in the normal course of business to hedge its long-term electricity sales contracts.

D: Credit Risk Management

The corporation actively manages its exposure to credit risk by assessment of the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts. For Energy Marketing, the corporation sets strict credit limits for each counterparty and halts trading activities with the counterparty if the limits are exceeded. The corporation makes detailed assessments of the credit quality of all counterparties and, where appropriate, obtains corporate guarantees and/or letters of credit to support the ultimate collection of these receivables.

The corporation has a concentration of credit risk relating to its long-term receivable of $136.0 million from UtiliCorp Networks Canada arising from the sale of the discontinued Alberta D&R operation. In addition, Alberta Generation and Transmission receivables totalling $194.7 million at Dec. 31, 2000, of which $77.9 million are long-term, relate to the regulated Alberta market, but credit risk is mitigated through the regulated recovery of credit losses through customer rates. At Dec. 31, 2000, the corporation had $99.2 million of receivables outstanding related to sales to the California market. Although by Jan. 31, 2001, $12.9 million of this amount had been collected, ultimate collection of the remaining balance is uncertain. As a result, the corporation has provided for $43.2 million against the uncollected amount.

21: JOINT VENTURES

Summarized information on the results of operations, financial position and cash flows relating to the corporation's pro-rata interests in its continuing jointly controlled corporations was as follows:

	2000	1999
Results of operations		
Revenues	**$ 112.2**	$ 22.2
Expenses	**(95.7)**	(19.1)
Proportionate share of net earnings	**$ 16.5**	$ 3.1
Financial position		
Current assets	**$ 69.7**	$ 9.7
Long-term assets	**185.4**	163.8
Current liabilities	**(48.3)**	(10.0)
Long-term liabilities	**(56.4)**	(1.6)
Non-controlling interest	**–**	–
Proportionate share of net assets	**$ 150.4**	$ 161.9
Cash flows		
Cash flow from operations	**$ 18.0**	$ 8.9
Cash flow from (to) investing activities	**(17.8)**	(102.0)
Cash flow from (to) financing activities	**(35.0)**	92.3
Proportionate share of changes in cash	**$ (34.8)**	$ (0.8)

22: RELATED PARTY TRANSACTION

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TransAlta Energy for a five-year and one-month period starting Dec. 1, 2000. As described in *Note 12*, TA Cogen is 49.99 per cent owned by TA Power, a publicly owned limited partnership with the remaining 50.01 per cent owned by TransAlta Energy, a wholly owned subsidiary of the corporation, which also operates and maintains TA Cogen's three combined-cycle power plants in Ontario. The swap transaction provided TA Cogen with fixed price gas for both the Mississauga and Ottawa plants over the five-year period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TransAlta Energy Corporation's account. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration and in negotiation, TA Cogen transferred the right to incremental revenues associated with curtailed electrical production and subsequent higher revenue gas sales to TransAlta Energy Corporation. At Dec. 31, 2000, the portion of the contract related to the minority interest had a fair value liability of $19.0 million and was included as a charge to non-controlling interest.

23: LONG-TERM SALES COMMITMENTS

A significant portion of the corporation's electricity and thermal sales revenues are subject to long-term contracts and arrangements. In Generation, commencing Jan. 1, 2001, Alberta generation assets are subject to long-term PPAs for the remaining life of each plant or unit. These PPAs set a production requirement and availability target to be supplied by each plant or unit and the price at which each megawatt-hour will be supplied to the customer. A significant portion of

Generation's Centralia plant production is subject to short- to medium-term energy sales contracts. In addition, most of the corporation's energy sales from its IPP plants are also subject to medium- to long-term energy sales contracts.

24: OTHER CONTINGENCIES

In August 2000, a single thermal generating unit was shut down due to safety concerns related to possible corrosion fatigue cracks within the waterwall tubing of its boiler. Consequently, subject to further study of the extent of the repairs required, the unit is not expected to return to service until mid-2001. The corporation has filed for relief of approximately $18 million of obligation payments occurring from the date of shutdown to the end of 2000 and the corporation will record such relief upon receipt of a regulatory decision.

Commencing Jan. 1, 2001, the unit is subject to the terms of a PPA. Under the PPA's *force majeure* article, the corporation is not obligated to supply electricity during the period of repair, subject to confirmation by the administrator of the PPAs. Should such confirmation not occur, the corporation may be obligated to pay penalties to the PPA buyer for electricity not supplied during the affected period. No amount has been accrued in these financial statements for this potential liability as neither the outcome nor amount was determinable at the reporting date.

25: COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited; Canadian dollars in millions, except per share amounts)

2000 Quarters	First	Second	Third	Fourth	Total
Total revenues	**$ 311.1**	**$ 368.2**	**$ 394.6**	**$ 513.1**	**$ 1,587.0**
Earnings from continuing operations*	**$ 55.3**	**$ 39.8**	**$ 35.7**	**$ 47.1**	**$ 177.9**
Net earnings*	**$ 93.1**	**$ 50.7**	**$ 316.1**	**$ (180.1)**	**$ 279.8**
Basic earnings (loss) per common share:					
Continuing operations	**$ 0.33**	**$ 0.23**	**$ 0.21**	**$ 0.28**	**$ 1.05**
Net earnings	**$ 0.55**	**$ 0.30**	**$ 1.87**	**$ (1.06)**	**$ 1.66**
Fully diluted earnings (loss) per common share:					
Continuing operations	**$ 0.31**	**$ 0.23**	**$ 0.21**	**$ 0.28**	**$ 1.03**
Net earnings	**$ 0.53**	**$ 0.30**	**$ 1.84**	**$ (1.05)**	**$ 1.62**

1999 Quarters	First	Second	Third	Fourth	Total
Total revenues	$ 281.1	$ 264.8	$ 269.7	$ 213.8	$ 1,029.4
Earnings from continuing operations*	$ 34.3	$ 28.8	$ 34.3	$ (0.4)	$ 97.0
Net earnings*	$ 64.4	$ 35.4	$ 40.3	$ 30.0	$ 170.1
Basic earnings (loss) per common share:					
Continuing operations	$ 0.20	$ 0.17	$ 0.21	$ (0.01)	$ 0.57
Net earnings	$ 0.38	$ 0.21	$ 0.24	$ 0.17	$ 1.00
Fully diluted earnings (loss) per common share:					
Continuing operations	$ 0.19	$ 0.17	$ 0.21	$ (0.02)	$ 0.55
Net earnings	$ 0.37	$ 0.21	$ 0.24	$ 0.15	$ 0.97

** Applicable to common shareholders net of preferred securities distributions*

FINANCIAL SUMMARY

(millions of dollars except where noted)	2000	1999	1998
Earnings statement			
Revenues	**$ 1,587.0**	$ 1,029.4	$ 1,089.9
Earnings before interest, income taxes and non-controlling interests (EBIT) [1]	**$ 604.6** [1]	$ 442.0 [1]	$ 660.1 [1]
Net earnings	**$ 279.8**	$ 170.1	$ 211.4
Balance sheet			
Total assets	**$ 7,627.1**	$ 6,038.4	$ 5,392.6
Short-term debt, net of cash and interest-earning investments	**$ 220.5**	$ (173.6)	$ (149.4)
Long-term debt	**2,201.4**	2,177.4	1,903.6
Preferred shares of a subsidiary	**121.6**	268.3	268.4
Other non-controlling interests	**253.4**	377.4	503.3
Preferred securities	**292.0**	287.1	–
Common shareholders' equity	**1,957.4**	1,835.6	1,855.0
Total invested capital	**$ 5,046.3**	$ 4,772.2	$ 4,380.9
Cash flow			
Cash provided by operations	**$ 188.7**	$ 422.0	$ 470.7
Cash used in investing activities	**$ (205.0)**	$ (988.8)	$ (137.2)
Common share information (per share)			
Net earnings	**$ 1.66**	$ 1.00	$ 1.31
Dividends declared	**$ 1.00**	$ 1.00	$ 0.99
Cash flow provided by operations	**$ 1.12**	$ 2.49	$ 2.92
Book value (at year-end)	**$ 11.61**	$ 10.85	$ 10.94
Market price			
High	**$ 22.55**	$ 25.15	$ 25.40
Low	**$ 13.20**	$ 12.25	$ 18.20
Close (at year-end)	**$ 22.00**	$ 14.15	$ 22.60
Ratios (percentage except where noted)			
Debt/invested capital	**49.96**	45.56	40.04
Return on common shareholders' equity	**11.74**	9.22	12.26
Return on invested capital	**9.99**	9.73	15.38
Dividend payout	**75.75**	99.65	75.83
Dividend yield	**4.55**	7.07	4.40
Dividend coverage	**0.96**	2.24	2.79
Price/earnings multiple	**16.67**	14.15	17.25
Weighted average common shares for year (in millions)	**168.8**	169.5	161.3
Common shares outstanding at year-end (in millions)	**168.6**	169.2	169.6
STATISTICAL SUMMARY			
Number of employees	**2,363**	2,679	2,455
Generating capability (net megawatts)			
Hydro	**800**	800	800
Coal	**5,016**	3,676	3,676
Gas and other	**1,054** [2]	1,464 [2]	1,008 [2]
Total generating capability	**6,870**	5,940	5,484
Electric generation by fuel source (millions of kilowatt hours) [4]			
Hydro	**1,492**	1,968	1,828
Coal	**32,876**	26,749	27,941
Net purchases and exchanges	**764**	561	534
Gas and other	**6,276** [3]	9,054 [3]	9,232 [3]
Total fuel source	**41,408**	38,332	39,535

Prior years have not been restated to conform with the current year's presentation.

1: Includes discontinued operations
2: Represents TransAlta's ownership
3: Represents total net plant production
4: 1999 statistics include discontinued New Zealand operations

Ratio Formulas

Debt/invested capital = (short-term debt + long-term debt – cash and interest-earning investments)/(Debt + preferred shares + non-controlling interests + common equity)

Return on common shareholders' equity = Net earnings/Average of opening and closing common equity

	1997	1996	1995	1994	1993	1992	1991	1990
	$ 1,656.4	$ 1,515.6	$ 1,330.5	$ 1,261.0	$ 1,208.3	$ 1,101.6	$ 1,000.5	$ 946.0
	$ 586.6	$ 570.6	$ 591.4	$ 588.7	$ 573.5	$ 560.5	$ 521.0	$ 406.8
	$ 182.6	$ 181.0	$ 181.7	$ 186.9	$ 183.8	$ 182.5	$ 158.3	$ 35.3
	$ 4,882.2	$ 4,804.4	$ 4,346.9	$ 3,969.7	$ 4,060.8	$ 3,990.9	$ 3,793.9	$ 3,671.9
	$ (20.3)	$ 13.3	$ 1.3	$ 84.8	$ 37.1	$ –	$ 186.5	$ 115.0
	2,198.0	2,364.0	2,009.0	1,584.5	1,748.8	1,502.4	1,349.8	1,490.7
	267.6	270.5	371.9	462.8	549.0	754.4	763.0	668.2
	162.9	164.4	73.3	–	–	–	–	–
	–	–	–	–	–	–	–	–
	1,594.3	1,582.3	1,542.7	1,515.0	1,477.6	1,445.0	1,254.3	1,155.8
	$ 4,202.5	$ 4,394.5	$ 3,998.2	$ 3,647.1	$ 3,812.5	$ 3,701.8	$ 3,553.6	$ 3,429.7
	$ 666.4	$ 563.2	$ 430.7	$ 422.9	$ 363.9	$ 426.8	$ 324.2	$ 285.6
	$ (319.7)	$ (459.9)	$ (361.3)	$ (152.7)	$ (295.8)	$ (408.3)	$ (302.0)	$ (255.4)
	$ 1.14	$ 1.14	$ 1.14	$ 1.18	$ 1.16	$ 1.18	$ 1.12	$ 0.26
	$ 0.98	$ 0.98	$ 0.98	$ 0.98	$ 0.98	$ 0.98	$ 0.98	$ 0.98
	$ 4.17	$ 3.54	$ 2.71	$ 2.66	$ 2.29	$ 2.75	$ 2.29	$ 2.10
	$ 9.96	$ 9.92	$ 9.71	$ 9.54	$ 9.31	$ 9.12	$ 8.71	$ 8.42
	$ 22.75	$ 18.20	$ 14.88	$ 16.25	$ 15.50	$ 14.50	$ 13.88	$ 14.38
	$ 15.10	$ 14.25	$ 13.00	$ 13.13	$ 12.63	$ 12.00	$ 11.88	$ 11.13
	$ 22.55	$ 17.25	$ 14.63	$ 14.50	$ 15.25	$ 13.75	$ 13.50	$ 11.88
	51.82	54.10	50.28	45.77	46.84	40.59	43.23	46.82
	11.50	11.58	11.88	12.49	12.58	13.52	13.14	2.96
	13.65	13.60	15.47	15.78	15.26	15.45	14.92	11.85
	85.71	86.19	85.69	83.25	84.60	83.29	87.49	377.34
	4.35	5.68	6.70	6.76	6.43	7.13	7.26	8.25
	4.04	3.38	2.51	2.42	1.98	2.37	1.89	1.72
	19.78	15.13	12.83	12.29	13.15	11.65	12.05	45.69
	159.7	159.2	158.9	158.8	158.7	155.0	141.4	135.9
	160.0	159.5	158.9	158.8	158.7	158.5	144.0	137.3
	2,667	3,099	2,128	2,213	2,435	2,612	2,666	2,626
	800	800	800	800	800	800	800	800
	3,676	3,676	3,676	3,676	3,676	3,676	3,676	3,676
	832	815	485	485	375	265	85	85
	5,308	5,291	4,961	4,961	4,851	4,741	4,561	4,561
	1,626	1,754	1,786	1,574	1,670	1,502	2,022	2,051
	28,727	27,844	28,026	27,737	27,369	26,904	26,102	25,584
	539	500	395	401	(1,107)	(1,145)	(1,905)	(2,809)
	6,048	4,666	3,561	2,860	1,256	100	–	–
	36,940	34,764	33,768	32,572	29,188	27,361	26,219	24,826

Return on invested capital = Earnings before interest and taxes (EBIT)/Average annual invested capital

Dividend payout = Dividends/Net earnings

Dividend yield = Common share dividends/Prior year's close price

Dividend coverage = Cash flow from operations per share, less preferred securities distributions and preferred share dividends/Dividends per common share

Price/earnings multiple = Current year's close/Net earnings per share

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 10 a.m. on Thursday, May 3, 2001 at the Hotel Macdonald, 10065 - 100 Street, Edmonton, Alberta

TRANSFER AGENT

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Station
Toronto, Ontario M5G 2W9

phone

North America :
1.800.387.0825 toll free

Toronto/outside North America :
416.813.4600

fax

416.813.4555

web site

www.cibcmellon.ca

TICKER SYMBOL

TA for TransAlta Corporation common shares TA.Pr.A and TA.Pr.B for TransAlta Corporation preferred securities

EXCHANGE

Toronto Stock Exchange

VOTING RIGHTS

Common shareholders receive one vote for each common share held

ADDITIONAL INFORMATION

requests can be directed to:
Investor Relations
TransAlta Corporation
P.O. Box 1900, Station "M"
110–12th Avenue S.W.
Calgary, Alberta T2P 2M1

phone

North America :
1.800.387.3598 toll free

Calgary/outside North America :
403.267.2520

fax

403.267.2590

e-mail

investor_relations@transalta.com

web site

www.transalta.com

SPECIAL SERVICES FOR REGISTERED SHAREHOLDERS

SERVICE	DESCRIPTION
Dividend reinvestment and share purchase plan	Conveniently reinvest your TransAlta dividends and purchase common shares without brokerage costs.
Direct deposit for dividend payments	Automatically have dividend payments deposited to your bank account.
Account consolidations	Eliminate costly duplicate mailings by consolidating account registrations.
Address changes and share transfers	Receive tax slips and dividends without the delays resulting from address and ownership changes.

To use these services please contact our transfer agent.

STOCK SPLITS AND SHARE CONSOLIDATIONS

DATE	EVENTS	RATIO
May 8, 1980	Stock split	3:1
Feb. 1, 1988	Stock split*	2:1
Dec. 31, 1992	Reorganization—TransAlta Utilities shares exchanged for TransAlta Corporation shares**	1:1

The Valuation Date value of common shares owned on Dec. 31, 1971, adjusted for stock splits, is $4.54 per share.

* *The adjusted cost base for shares held on Jan. 31, 1988 is reduced by $0.75 per share following the Feb. 1, 1988 share split.*

** *TransAlta Utilities Corporation became a wholly owned subsidiary of TransAlta Corporation as a result of this reorganization.*

DIVIDEND POLICY

TransAlta's dividend policy considers several factors, including: the corporation's earnings record; cash flow; capital requirements; the expectations of shareholders; and future earnings prospects. The dividends declared and paid are consistent with TransAlta's growth strategy and recognize the need to retain earnings to finance future growth.

IMPORTANT DIVIDEND DATES

PAYMENT DATE	RECORD DATE	EX-DIVIDEND DATE
April 1, 2001	Mar. 1, 2001	Feb. 27, 2001
July 1, 2001	June 1, 2001	May 30, 2001
Oct. 1, 2001	Sept. 1, 2001	Aug. 29, 2001
Jan. 1, 2002	Dec. 1, 2001	Nov. 28, 2001
April 1, 2002	Mar. 1, 2002	Feb. 27, 2002

Dividends are paid on the first of the month in January, April, July and October. When a dividend payment date falls on a weekend or holiday the payment is made on the following business day.

1: TOTAL SHAREHOLDER RETURN VS. TSE 300

(YEARS ENDED DECEMBER 31, DOLLARS)

	95	96	97	98	99	00
TRANSALTA	**100**	**125**	**170**	**177**	**117**	**190**
TSE 300	100	128	148	145	191	205

This chart compares what $100 invested in 1995 in TransAlta and the TSE 300 Index would be worth today, assuming the re-investment of all dividends.

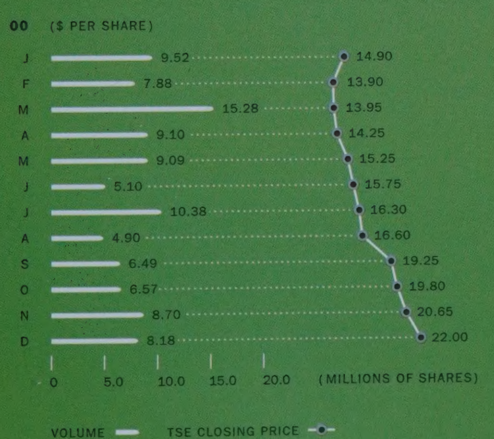
2: 10-YEAR TRADING RANGE & MARKET VALUE VS. BOOK VALUE

($ PER SHARE)

	91	92	93	94	95	96	97	98	99	00
MARKET VALUE	13.50	13.75	15.25	14.50	14.63	17.25	22.55	22.60	14.15	**22.00**
BOOK VALUE	8.42	8.71	9.12	9.31	9.54	9.71	9.94	10.94	10.85	**11.61**
TRADING RANGE										

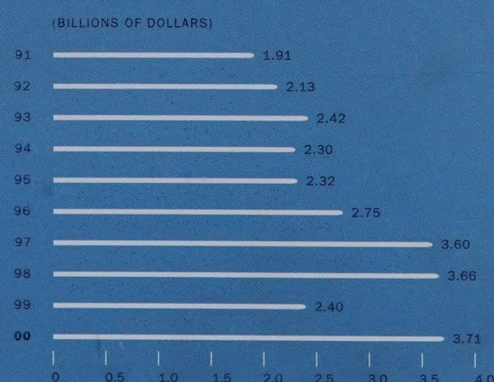
The stock price TransAlta attained in 2000 reflects increased confidence in the electric utility sector, as well as a favourable view of our company's strategy. The trading range has widened in recent years as less earnings come from regulated operations.

3: MONTHLY VOLUME & MARKET PRICE



A higher than normal trading volume in March was due to the TSE switch to the S&P/ TSE 60 index, and the resulting rebalancing of investors' portfolios. The steady increase in market price in 2000 reflects increased confidence in the electricity sector, as well as a favourable view of our stategy.

4: 10-YEAR MARKET CAPITALIZATION



Market capitalization is calculated by multiplying the market price of a share by the number of shares outstanding. In 2000, TransAlta's market capitalization reached 3.71 billion, the highest level in company history.

BOARD OF DIRECTORS

LAWRENCE I. BELL : *Director since 1992 and resident of Vancouver, BC. He is vice chairman of Shato Holdings Ltd., and chairman of White Spot Limited, a subsidiary of Shato Holdings. Mr. Bell is a board member of BC Gas, Trans Mountain Pipe Line Company Ltd., Canadian Hunter, Interfor and Miramar Mining. He is the chair of the board of governors for the University of British Columbia. Mr. Bell was chairman and chief executive officer of B.C. Hydro and Power Authority.*

STANLEY J. BRIGHT : *Director since 1999 and resident of Vero Beach, FL. Mr. Bright is a director of Mid-American Energy Holdings Company and Infrastnx Group, Inc.*

RODERICK S. DEANE : *Director since May 2000 and resident of Wellington, New Zealand. Dr. Deane is chairman of Telecom Corporation of New Zealand Limited, Fletcher Challenge Limited, eVentures NZ Ltd., and ANZ Banking Group Limited (New Zealand). Dr. Deane is a director of the ANZ Banking Group Limited (Melbourne) and a director of Woolworths Limited. He is also a professor of economics and management at Victoria University (Wellington). Dr. Deane was previously chief executive of the Electricity Corporation of New Zealand Limited.*

JACK C. DONALD : *Director since 1993 and resident of Red Deer, AB. He is president and chief executive officer of Parkland Industries Ltd. Mr. Donald is also vice-president and director of Brandt Industries Ltd., chairman and director of the Canadian Western Bank and Canadian Western Trust, and a director of the Canadian Petroleum Products Institute and Ensign Resource Services Group.*

JOHN T. FERGUSON : *Director since 1981 and resident of Edmonton, AB. He was appointed chair of the board in 1998. Mr. Ferguson is chairman, founder and a director of Princeton Developments Ltd. He is also a director of the Royal Bank of Canada, RBC Insurance Inc. and Suncor Energy Inc. He is a director of the C.D. Howe Institute, a director of the Canadian Institute for Advanced Research, and a member of the World Presidents' Organization. Most recently, Mr. Ferguson was appointed chancellor of the board of governors of the University of Alberta.*

CHRISTOPHER HAMPSON : *Director since 1994 and resident of London, England. He is chairman of RMC Group plc. and British Biotech plc. Mr. Hampson is also a non-executive director of the Lattice Group plc., the SNC-Lavalin Group Inc. and vice-president of the Combined Heat and Power Association in England. Mr. Hampson is former chairman of Yorkshire Electricity Group plc. and a former director of Imperial Chemical Industries plc. (ICI).*

CHARLES H. HANTHO : *Director since 1992 and resident of Toronto, ON. He is chairman of Dofasco Inc., Camco Inc. and Hamilton Utilities Corporation. Mr. Hantho is also a director of Inco Limited and Telemedia Corp. He is chairman of York University Development Corporation and a member of the Order of Canada.*

LOUIS D. HYNDMAN : *Director since 1986 and resident of Edmonton, AB. He is a senior partner of the law firm Field Atkinson Perraton. Mr. Hyndman is a director of Enbridge Inc., Melcor Developments, Oxford Properties Canada Ltd. and TD Meloche Monnex Inc. He held several ministerial appointments before serving as Provincial Treasurer of Alberta from 1979 to 1986. Mr. Hyndman is a member of the Order of Canada and a trustee of the Alberta Heritage Foundation for Medical Research.*

DONNA SOBLE KAUFMAN : *Director since 1989 and resident of Toronto, ON. She was formerly chairman and chief executive officer of Selkirk Communications Limited and was a partner of the law firm Stikeman, Elliott for several years. Mrs. Kaufman is now a full-time corporate director. She is a director of BCE Inc., Bell Canada International Inc., Bell Globemedia Inc., Hudson's Bay Company, Public Sector Pension Investment Board and HISTOR!CA. Mrs. Kaufman is a governor of the Council for Canadian Unity and of the Baycrest Centre for Geriatric Care.*

JOHN S. LANE : *Director since 1993 and resident of Toronto, ON. He is chairman of SLC Asset Management and a director of AFP Cuprum S.A., McLean Budden, the Teachers' Pension Plan Board of Ontario and the Canadian Friends of the British Museum. Mr. Lane was formerly senior vice-president, Investments, Sun Life Assurance Company of Canada.*

J. WALLACE MADILL : *Director since 1978 and resident of Calgary, AB. He served as chief executive officer of the Alberta Wheat Pool for 20 years and is president of J. Wallace Madill and Associates. Mr. Madill is a director of Fording Coal Limited, past president of the Calgary Chamber of Commerce and a former board member of the Calgary Foundation. Mr. Madill is scheduled to retire at the 2001 Annual General Meeting.*

STEPHEN G. SNYDER : *Director since 1996 and resident of Calgary, AB. He is president and chief executive officer of TransAlta Corporation and a member of the board of directors of Canadian Hunter Exploration, CIBC, the Conference Board of Canada and the Canadian Electrical Association. Mr. Snyder is also a member of the Business Council on National Issues and chair of the 2001 Calgary United Way Campaign.*

RALPH A. THRALL, JR. : *Director since 1981 and resident of Lethbridge, AB. He is president of McIntyre Ranching Co. Ltd. Mr. Thrall is also a member of the Kainai Chieftainship and the Board of Regents of Augustana University College.*

CORPORATE GOVERNANCE : TransAlta's directors are experienced business leaders representing varied geographical and professional backgrounds including finance, business and public service. On behalf of TransAlta's shareholders, the board of directors is responsible for the stewardship of the corporation, establishing overall policies and standards and reviewing strategic plans. During 2000, the directors met on 14 occasions including one special meeting devoted exclusively to TransAlta's corporate strategy and direction. Twelve of the 13 board members are independent of management. The board has established three permanent committees for the continuous review of the principle risks to the corporation and monitoring the systems for managing these risks. All committee members are independent of management.

AUDIT AND ENVIRONMENT COMMITTEE : The committee is responsible for reviewing and inquiring into matters affecting financial reporting, risks inherent in the business and environmental regulation of the corporation's activities. This committee met seven times in 2000. Committee Chair: J.W. Madill. Members: L.I. Bell, S.J. Bright, J.T. Ferguson, C. Hampson, D.S. Kaufman and J.S. Lane.

HUMAN RESOURCES COMMITTEE : The committee is responsible for reviewing and recommending executive compensation programs, succession plans and acting as steward for the corporate pension plan. This committee met five times in 2000. Committee Chair: C.H. Hantho. Members: J.C. Donald, J.T. Ferguson, L.D. Hyndman and R.A. Thrall, Jr.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE : The committee is responsible for the composition and compensation of the board of directors and for developing the company's approach to governance issues. This committee met five times in 2000. Committee Chair: D.S. Kaufman. Members: L.I. Bell, J.T. Ferguson, C.H. Hantho, L.D. Hyndman and J.S. Lane.

2000/2001 CHANGES : Dr. Roderick S. Deane was appointed to the board of directors in May 2000. Alister Cowan, Peter Korth, Scott Thon and Elizabeth J. Osler were appointed officers of TransAlta Corporation in 2000. T.A. Bertsch, R.D. Hallett, G.R. Holden, L.G. Letourneau, S. J. Simmons and P.H.E. Taylor resigned as officers of TransAlta Corporation in 2000. J. Tapics, an officer of TransAlta Corporation, left in 2000. In 2001, Robert Boguski, Frank Hawkins, James W. Kemp and Ken S. Stickland were appointed officers of TransAlta Corporation. Prior to the appointment of James Kemp, in addition to his duties as vice-president, IPP Marketing, G. Duane Lyons was the acting executive vice-president, Independent Power Projects. Peter Korth resigned as an officer of TransAlta Corporation in 2001 and Toby Austin, an officer of TransAlta Corporation, left in 2001.

TRANSALTA CORPORATION OFFICERS :

John T. Ferguson
CHAIR OF THE BOARD

Stephen G. Snyder
PRESIDENT & CHIEF EXECUTIVE OFFICER

Ian A. Bourne
EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

James F. Dinning
EXECUTIVE VICE-PRESIDENT, SUSTAINABLE DEVELOPMENT & EXTERNAL RELATIONS

Dawn L. Farrell
EXECUTIVE VICE-PRESIDENT, CORPORATE DEVELOPMENT

James W. Kemp
EXECUTIVE VICE-PRESIDENT, INDEPENDENT POWER PROJECTS

Murray A. Nelson
EXECUTIVE VICE-PRESIDENT, GENERATION

Ken S. Stickland
EXECUTIVE VICE-PRESIDENT, LEGAL

Linda K. Chambers
SENIOR VICE-PRESIDENT, HUMAN RESOURCES

Robert Boguski
VICE-PRESIDENT, SUPPLY CHAIN MANAGEMENT

Brian P. Clewes
VICE-PRESIDENT, GENERATION PROJECT MANAGEMENT

Alister Cowan
VICE-PRESIDENT & COMPTROLLER

Raymond M. Golmer
VICE-PRESIDENT & CHIEF INFORMATION OFFICER

G. Duane Lyons
VICE-PRESIDENT, IPP MARKETING

Robert J. D. Page
VICE-PRESIDENT, SUSTAINABLE DEVELOPMENT

Scott Thon
VICE-PRESIDENT, TRANSMISSION

Marvin J. Waiand
VICE-PRESIDENT & TREASURER

Richard W. Way
VICE-PRESIDENT, REGULATORY AFFAIRS

Robert C. P. Westbury
VICE-PRESIDENT, CORPORATE RELATIONS

Elizabeth J. Osler
CORPORATE SECRETARY

Frank Hawkins
ASSISTANT TREASURER

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TransAlta™*

TransAlta Corporation
Box 1900, Station "M" 110 – 12th Avenue S.W. Calgary, Alberta Canada T2P 2M1
toll-free in the U.S. and Canada: 1.800.387.3598 phone: 403.267.2520 fax: 403.267.2590
web site: www.transalta.com
e-mail: investor_relations@transalta.com